



WHOLESALE BULLETIN

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22W-008

Attention: Valued Broker Partners

January 14, 2022

Please take a moment to read the important information contained in this bulletin.

Included in this Bulletin: Freddie Mac - Temporary Condominium Requirements and Topic 5600 Reorganization

Please be aware of the following changes that Freddie Mac is making in regard to Condominium Requirements. These changes will not be updated in the Freddie Mac selling guide. In addition, Topic 5600 in the Seller Guide will be reorganized to improve user experience.

Temporary Condominium Requirements

To address the risks of residential buildings with aging infrastructure and in need of critical repairs*, Freddie Mac is issuing temporary project review requirements. These will affect projects in need of critical repairs and projects with special assessments. Condominium project reserves requirements remain unchanged.

The temporary requirements apply to all Mortgages secured by units in projects with five or more attached units, regardless of the project review type or if the Mortgage is eligible to be delivered as Exempt from Review, as illustrated in the table below. These new requirements are in addition to, and do not supersede, any of the current applicable Guide requirements.

***Critical Repairs:** defined as repairs and replacements that significantly impact the safety, soundness, structural integrity, or habitability of the project's building(s) and/or that impact unit values, financial viability, or marketability of the project. These repairs and replacements include:

- All life safety hazards
- Violations of any Federal, State, or local law, ordinance, or code relating to zoning, subdivision and use, building, housing accessibility, health matters, or fire safety
- Material deficiencies
- Significant deferred maintenance

	Seller must determine compliance with the requirements regarding	
	Projects in need of Critical Repairs	Special Assessments
Freddie Mac project review types		
Streamlined reviews Guide Section 5701.4	X	X
Established Condominium Projects Section 5701.5	X	X
New Condominium Projects Section 5701.6	X	X
Reciprocal project reviews Section 5701.9	X	X
Cooperative Project reviews¹ Section 5705.4	X	X
If delivered in accordance with the requirements in Section 5701.7 or 5705.7, Exempt From Review:		
2- to 4- Unit Condominium Projects		
Detached Condominium Units		
Freddie Mac owned "no cash-out" refinance Condominium Unit Mortgages/Cooperative Share Loans	X	X
Freddie Mac Refi PossibleSM Mortgages	X	X

¹Temporary requirements are not applicable to 2- to 4- unit Cooperative Projects and detached Cooperative Units.

Effective date: All of the temporary Condominium requirement changes announced in this bulletin will be effective for mortgages with settlement dates on or after February 28th, 2022, and will remain in place until further notice.

Projects in need of Critical Repairs: Mortgages secured by units in Condominium Projects in need of Critical Repairs, as defined above, are not eligible for sale to Freddie Mac. Acceptable sources of documentation to determine if a project needs Critical Repairs may include but are not limited to:

- Homeowner's Association (HOA) meeting minutes
- Engineer's reports
- Reserve studies
- List of necessary repairs provided by the HOA or management company, and
- Other substantially similar documentation

Any documentation used to determine the eligibility of projects in need of Critical Repairs must be retained and provided to Freddie Mac upon request.

Violations of State or local law, ordinance, or code, as referenced in the Critical Repairs definition, include failure by the HOA to schedule an inspection required by the applicable jurisdiction and any directive from a regulatory authority or inspection agency to make Critical Repairs.

Projects in need of Critical Repairs remain ineligible until the required repairs and/or inspection report have been completed and documented. Sellers must review an engineer's report or substantially similar document to determine that the repairs resolved the building's safety, soundness, structural integrity, or habitability concerns.

These temporary requirements do not apply to:

- Routine Repairs and Maintenance, and
- Damage or deferred maintenance to one or a few units in the project, provided that there is no impact to the overall safety, soundness, structural integrity, or habitability of the improvements

When determining if a repair is a Routine Repair or Maintenance, Sellers are reminded Freddie Mac's Condominium Project budget requirements include determining that appropriate assessments are established to manage the project and there are appropriate allocations for line items pertinent to the type and status of the Condominium Project. Sellers should evaluate the line items on the budget, especially those for repairs and maintenance, and the amounts associated with those line items as part of the Seller's project review process.

Special assessments

Any current special assessment, even if paid in full for the subject unit, must be reviewed to determine eligibility. This includes any special assessment that the board approved and, if required, owners approved but the board has not initiated collection yet (e.g., a planned special assessment). The Seller must determine:

- The reason for the special assessment
- The total amount assessed
- For current special assessments, the total amount is an appropriate allocation or, for planned special assessments, there is adequate cash flow to fund the reason for the special assessment, and
- For current special assessments, the amount budgeted to be collected year-to-date (YTD) has been collected

To determine that the amount budgeted to be collected year-to-date has been collected:

- The Seller must review an income statement or a substantially similar document which has YTD budgeted and actual amounts for the special assessment
- The document should be dated within 90 days of the project review date, and
- Any shortfall between the budgeted and actual YTD amounts for the special assessment must not be more than 5%

Calculation: $1 - (\text{actual YTD amount collected} \div \text{budgeted YTD amount}) \leq .05$

Any documentation used to determine the eligibility of the special assessment, such as the income statement referenced above, must be retained, and provided to Freddie Mac upon request.

As a reminder, special assessments with more than 10 monthly payments remaining must be included in the calculation of the monthly housing expense-to-income ratio and must be documented in the mortgage file.

Condominium Project questionnaire addendum

In response to industry feedback, Freddie Mac and Fannie Mae are developing Form 476A, an addendum to Form 476, Condominium Project Questionnaire – Full Form. Form 476A may assist Sellers in determining whether a project meets the temporary Condominium requirements announced in this Bulletin.

Sellers will not be required to use Form 476A. The new form, however, will include detailed questions intended to solicit a minimum level of information that Sellers must obtain to determine whether a project complies with the temporary requirements. Sellers may need to obtain additional information and/or documentation for some projects to determine if a project meets the temporary requirements.

Additionally, Form 477, Condominium Project Questionnaire – Short Form is being retired. Although Form 477 will no longer be available on the Condominium Unit Mortgages web page, Form 476 and, when completed, Form 476A will continue to be available.

Reserve requirement reminders

Freddie Mac is not changing reserve requirements for any of our project review types with this Bulletin. Sellers may continue to rely on a working capital fund for New Condominium Projects or a reserve study, for both Established and New Condominium Projects, when the project's budget provides less than 10% replacement reserves.

Additional reminders

As a reminder, Sellers are not relieved of project related representation and warranties for Condominium Unit Mortgages that receive an Automated Collateral Evaluation (ACE) waiver. Sellers must ensure the requirements of the applicable Condominium Project review type or the requirements of Exempt from Review have been met.

Sellers should not rely exclusively on the appraisal to complete a project review. The appraisal may not have sufficient information for a Seller to determine if the project meets our project eligibility requirements.

Additionally, Sellers must determine that Condominium Projects reviewed under any project review type or delivered as Exempt from Review meet the applicable requirements in Section 5701.2.

Finally, homeowners and shareholders impacted by disasters, such as the recent Condominium Project collapse or other similar circumstances, may be eligible to use disaster-related servicing flexibilities as described in Guide Chapter 8404.

Topic 5600 Reorganization

Effective March 31, 2022

In an effort to provide greater ease of use with respect to our property eligibility and appraisal requirements, we are revising Topic 5600. These revisions will reduce and/or eliminate certain

redundancies, update titles and headings for more efficient keyword search and create new chapters that organize categories of related content and requirements. No requirements are changing as part of the update.

If you have any questions, contact your local Account Executive, Production Coordinator, Regional Vice President, or Brian Daily, SVP Wholesale: Brian.Daily@mwfinc.com, 909-255-8332.

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