

Fannie Mae Updates Lending Standards, Impacting Condominium and HOA Boards and Management Companies Nationwide

New Requirements Focus on Reserves, Insurance, and Project Financial Health

On March 18, 2026, Fannie Mae announced sweeping updates to its condominium and homeowners association (HOA) lending and insurance requirements, responding to rising insurance costs, underfunded reserves, and loan approval delays. The changes mainly affect condominiums, planned unit developments (PUDs), and communities with master insurance policies across the United States.

Because more than 70% of U.S. mortgages fall under Fannie Mae guidelines per Community Associations Institute (CAI), these new standards will play a significant role in the marketability and financing in communities across the country.

What Association Boards and Managers Should Know

Project Review Changes

Fannie Mae has eliminated the Limited Review process and expanded its Waiver of Project Review. Smaller projects with up to 10 units may now bypass full reviews, which could expedite financing. However, for most communities, lenders will conduct more detailed evaluations of an association's finances including budgets and balance sheets, reserves, maintenance practices, and insurance structures beginning **August 3, 2026**.

Investor Concentration Limits Removed

The longstanding 50% cap on investor-owned units in established projects has been eliminated, effective **immediately**. This change makes investor-heavy communities easier to finance, while existing pre-sale requirements for new developments remain unchanged.

Enhanced Reserve Study Requirements

Associations using reserve studies must now fund reserves at the highest recommended level starting **August 3, 2026**. Funding reserves and spending down near zero annually (i.e. using reserves as another bucket for current maintenance needs) will no longer be permitted.

Reserves Will Increase from 10% to 15%

Minimum reserve funding will increase from 10% to 15% of annual income, beginning **January 4, 2027**.

Master Policy Insurance Adjustments

To address increasing insurance premiums, Fannie Mae has adjusted master policy requirements:

- Inflation guard coverage is no longer required effective **immediately**.
- Roofs must remain insured but not necessarily at replacement cost effective **immediately**.
- Per-unit deductibles are capped at \$50,000 **beginning July 1, 2026**.

Clearer Rules for Unit Owner Insurance (HO-6)

Individual unit owner (HO-6) insurance is required where master policies do not fully cover interiors or where per-unit deductibles apply. The maximum deductible is capped at \$2,500 or 5% of coverage, whichever is greater.

Four Immediate Action Items for Your Board

1. Reserve Funding

Fannie Mae has raised reserve requirements and removed prior flexibility. Associations with a reserve study must fund reserves at the highest recommended level starting this August. Replacement reserve funding minimums increased to 15% of the annual budget required by January 2027.

Board Action: Review reserves levels and requirements immediately. Develop a plan for meeting your reserve study's highest recommended level by August, where applicable, or 15% of the association's budget by 2027. Consult your governing documents and association manager and attorney to consider mid-year assessments as permitted to cover any reserve funding gaps. Act sooner to allow owners more time to pay.

2. Project Review

With the Limited Review process eliminated, lenders will more closely evaluate finances, maintenance, and insurance. Projects with deficiencies may face delays, restricted financing options or placement on the unapproved list.

Board Action: Proactively address outstanding deferred maintenance, keep financial reporting current, and coordinate upcoming lending disclosures with your management team and attorney.

3. Insurance & Deductibles

Master policy insurance has changed in many important ways, adjusting roof coverage, inflation guard and per-unit deductible, which also impacts individual owner policies.

Board Action: Review policies and deductibles with your association's insurance broker to make adjustments where advised and appropriate, ensure compliance, and clearly communicate owner insurance responsibilities via information from your association's insurance broker to the owners.

4. Governing Documents & Communication

Outdated declarations and by-laws may not contemplate new reserve and insurance requirements, which could increase the risk of misunderstandings of obligations and lead to disputes. Changes may be needed to more effectively allow your association to assess for various needs, take advantage of insurance changes, among other potential needs.

Board Action: Review your governing documents with your associations attorney and insurance broker and prepare amendments and new rules as needed. Communicate with your owners about these changes so they are fully aware in advance and know what to expect.

All Fannie Mae updates mentioned above are noted in their March 18, 2026, Lender Letter here:

<https://singlefamily.fanniemae.com/media/44986/display>

For questions or assistance, contact Stephen Davis at 314.854.8685 or sgd@carmodymacdonald.com, from the Carmody MacDonald Homeowner and Condominium Association Law Team.

This press release is for informational purposes only. Nothing herein should be treated as legal advice or as creating an attorney-client relationship. The choice of a lawyer is an important decision and should not be based solely upon advertisements.