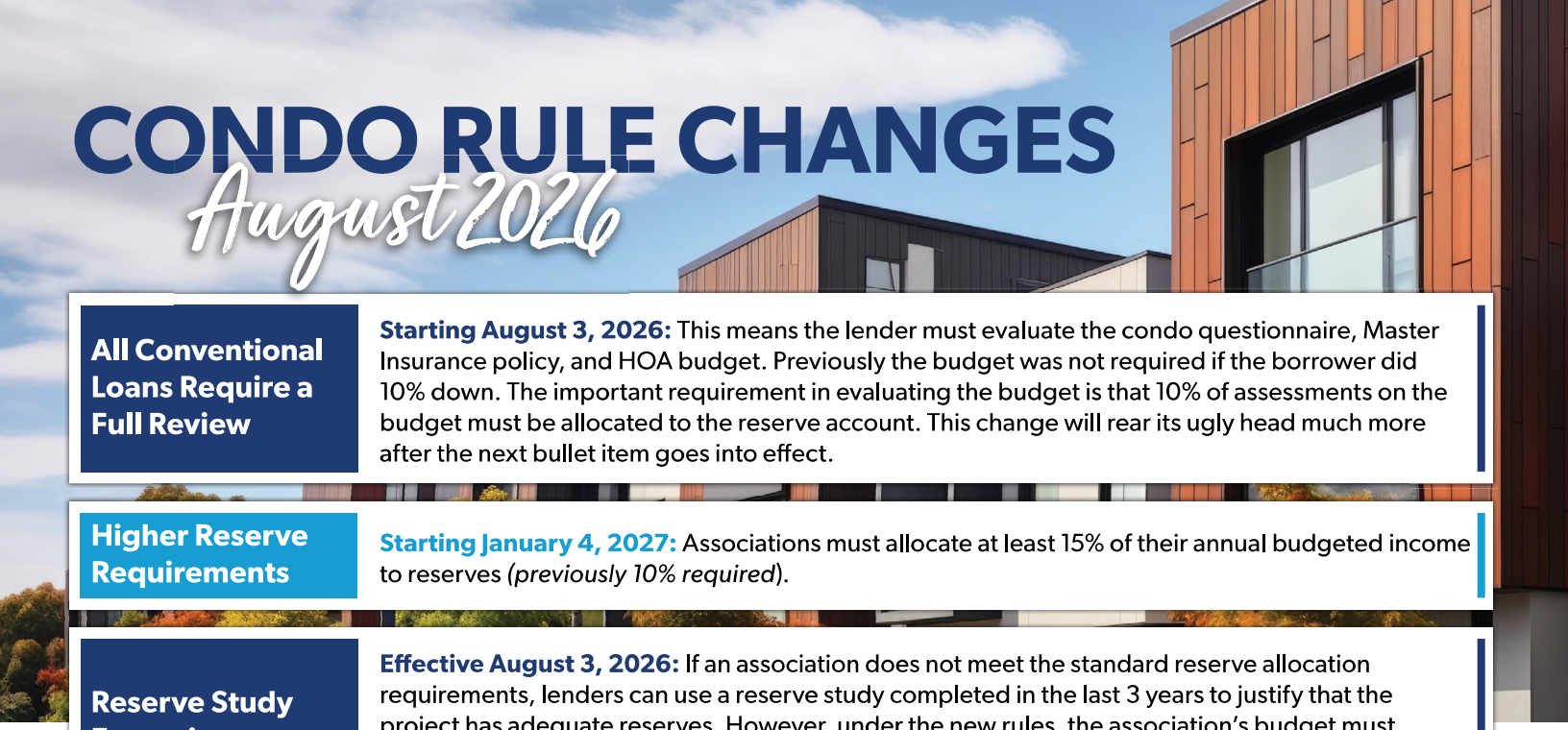

CONDO RULE CHANGES

August 2026

All Conventional Loans Require a Full Review

Starting August 3, 2026: This means the lender must evaluate the condo questionnaire, Master Insurance policy, and HOA budget. Previously the budget was not required if the borrower did 10% down. The important requirement in evaluating the budget is that 10% of assessments on the budget must be allocated to the reserve account. This change will rear its ugly head much more after the next bullet item goes into effect.

Higher Reserve Requirements

Starting January 4, 2027: Associations must allocate at least 15% of their annual budgeted income to reserves *(previously 10% required)*.

Reserve Study Exceptions

Effective August 3, 2026: If an association does not meet the standard reserve allocation requirements, lenders can use a reserve study completed in the last 3 years to justify that the project has adequate reserves. However, under the new rules, the association's budget must include the ***highest recommended reserve allocation*** identified in the study to adequately cover the costs (the old rule allowed the use of the ***minimum recommended reserve allocation***)

Insurance Relief

Master insurance policies are more flexible. Roofs no longer need to be insured at 100% replacement cost, Actual Cash Value coverage is now permitted (this keeps insurance costs down and makes insurance terms on loans easier to approve but could create issues later for complexes that need new roofs). Per-unit deductibles are capped at $50,000, which helps HOAs manage rising premium costs.

Condos with 10+ units

All of the above rules apply to condos with 10+ units. Previously these rules applied to complexes with 4+ units.

Lending Rule Classification Dictated by Legal Description

Classification of a condo is dictated by legal description

- Here is an example of how the legal description of a condo would read "MCR 598-16 UNIT 1129 with 1/52 ownership interest in the horizontal property regime of Sienna West including all common areas"
- There are no extra rules for Single Family Residence and Townhomes. Here is an example of how the legal description of a townhouse would read "Lot 28, of PARK MEDITERRANE MCR 123-27"

Contact our Team to find out how these changes affect you and your clients.



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