



Annual Fannie Mae Compliance Checklist for Condominium Property Managers and Boards of Directors

Year: _____

Association Name: _____

Ensuring that a condominium project remains compliant with **Fannie Mae (FNMA) guidelines** is critical for maintaining financing eligibility for current and future unit owners. This guide serves as a **checklist** for property managers to help their condominium associations **stay compliant** with FNMA requirements for established condominium projects. This list focuses on elements which may change from year to year and which management action can help to bring into compliance. This is not comprehensive for all requirements promulgated in the [Fannie Mae Selling Guide](#).

1. Budgeting & Financial Stability

- Confirm that the **operating budget is balanced** and sufficiently funds all operating expenses (including insurance compliant with this checklist).
 - Confirm that **at least 10% of the annual budget** is allocated to **reserves for capital expenditures and deferred maintenance**.
 - Ensure that **special assessments or loans are not relied upon** for routine operating expenses.
 - Verify that a **reserve study or Long Range Plan has been updated** within the last three years to assess long-term funding needs.
 - Confirm that **no more than 15% of units are 60+ days delinquent** on HOA dues.
 - Verify that the HOA is running collections actively to prevent excessive delinquencies.
 - Confirm **mortgagee has superior lien to the HOA** and in foreclosure is only required to pay new assessments as required by FNMA.
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2. HOA Governance & Administrative Compliance

- Confirm that **HOA board meetings are conducted regularly**, and meeting minutes are properly documented.

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- Ensure that **annual financial statements are reviewed or audited** as required by the governing documents.
 - Verify that the **HOA is in good standing** with the **Secretary of State** and any applicable local or state regulatory agencies.
 - Confirm that the HOA has **no significant operational or legal disputes** with local municipalities or state authorities that could impact eligibility.
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3. Unit Ownership & Investor Compliance

- Confirm the **number of rental units** and ensure that the percentage does not exceed FNMA's **maximum investor-owned threshold of 50%**.
 - Verify that no **single investor (individual or entity) owns more than 20%** of total units in an established project.
 - Ensure that ownership records are **regularly updated** to track owner-occupancy versus rental ratios.
 - Review and document any **changes in ownership structure** that could impact FNMA eligibility.
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4. Commercial Use & Mixed-Use Compliance

- Confirm that **commercial space does not exceed 35% of the total project** square footage.
 - Verify that commercial leases do not **grant control of HOA governance or financial operations** to commercial owners.
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5. Litigation & Legal Compliance

- Confirm that the if HOA is **involved in any active litigation where association is the Plaintiff that Association has properly budgeted for costs related to the litigation.**
- If the HOA is named as a **defendant in any litigation**, verify that the claim is covered by **insurance with adequate limits**. If it is not covered by insurance Association will need to demonstrate that the litigation potential financial impact is minor.

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- Ensure that litigation is **not related to structural integrity, habitability, or financial mismanagement** that could make the project ineligible (e.g. construction defect litigation).
 - Maintain records of any **legal disputes, resolutions, and court documents**.
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6. Reserve Contributions & Capital Planning

- If reserve study and/or Long Range Plan has been updated, confirm contributions meet level set in Long Range Plan or most recent reserve study (this is in lieu of 10% rule above).
 - Verify that reserves are sufficient to cover planned or needed **critical repairs or major capital repairs and replacements**.
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7. Special Assessments

- If there are **special assessments, ensure Resale/Closing Disclosures have been updated to reflect the same (e.g. resale certificates and lender questionnaires)**.
 - Confirm that any major capital projects paid for by **special assessments and/or loans they are completed promptly. During the period they are incomplete the condominium will be ineligible**.
 - Ensure that special assessments are **only used for capital repairs, emergencies, or reserve replenishment**, not routine operating shortfalls.
 - If you have special assessments, compile a folder with complete documentation of **assessment purpose, amount, repayment schedule, and HOA meeting minutes approving the same**.
 - Confirm Owners are required to **pay off unpaid special assessments** before closing if selling their unit.
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8. HOA Loans & Debt Management

- Confirm that all **HOA loans are used exclusively for capital improvements or reserve replenishment**. Loans cannot **cover operational expenses or routine maintenance costs**.
- Verify that the HOA **has not pledged common areas or individual units as collateral**.

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- Document the impact of the loan on the HOA's **budget and how the association loan repayment is accounted for in the reserve budget.**
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Note on Critical Repairs & Critical Elements

Incomplete **critical repairs** will cause a project to be ineligible however if damage or deferred maintenance is isolated to one or a few units and does not affect the overall safety, soundness, structural integrity, or habitability of the project, then these requirements do not apply. Form 1076 calls for disclosure of needed critical repairs related to critical elements. Ensure that you disclose correctly and in accordance with the definitions provided by FNMA as improperly labeling an isolated minor repair as a “critical repair” affecting safety of the project as a whole need may cause your entire condominium to become ineligible.

Critical Repairs: Repairs that impact the **safety, soundness, structural integrity, or habitability** of a condominium project. Examples include:

- Structural failures such as major cracks in load-bearing walls or foundation issues.
- Roof damage leading to water infiltration and mold growth.
- Electrical system failures creating fire hazards.
- Non-functioning or hazardous elevators in multi-story buildings.
- Unrepaired fire damage impacting safety.

Critical Elements: Key **structural and mechanical components** necessary for the safe and functional operation of the condominium project. Examples include:

- Load-bearing walls, foundations, and structural components.
- Elevators, stairwells, and parking structures.
- Electrical, plumbing, and HVAC systems.
- Fire safety systems, including alarms and sprinklers.
- Waterproofing systems, including roofs and exterior walls.

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9. Maintenance & Deferred Maintenance Prevention

- Conduct routine **structural, electrical, and mechanical system inspections to identify critical repairs necessary for critical elements.**
- Maintain proper documentation for all **inspections completed in the past three years.** Ensure these are part of disclosures to inquiring lenders.
- Confirm that all **critical repairs (as defined herein) identified in the inspection are completed** promptly to maintain FNMA eligibility. Project is ineligible during the period Critical Repairs are incomplete. Maintain documentation of such repairs.
- Ensure that no **pending evacuation orders exist** due to unsafe conditions.
- Verify that there are **no outstanding code compliance violations related to critical elements (e.g. red tags).**
- Confirm that the property has a **current, valid Certificate of Occupancy.**
- Board of Directors has reviewed and approved the list of known “critical repairs” meeting this criteria to be disclosed with Form 1076.

10. Insurance Requirements

- Confirm that the **property insurance policy covers 100% of the replacement cost (RCV)** and is written on a **Replacement Cost Valuation basis.**
- Verify that the **policy includes coverage** for fire, windstorm, hail, explosion, riot, aircraft, vehicles, smoke, and vandalism (special causes of loss form).
- Ensure that **ordinance or law coverage** is included for updated building code compliance.
- Verify that **deductibles do not exceed 5% of the policy's coverage amount.**
- Confirm that the HOA maintains a **minimum of \$1 million per occurrence** liability policy and covers all **common areas** such as pools, gyms, and parking garages.
- Ensure that **fidelity insurance is in place for HOAs with 20 or more units**, covering at least **three months of HOA assessments plus all reserve funds.**
- Confirm that **property managers handling HOA funds are included** as an insured under the policy.
- If the property is in a **FEMA-designated Special Flood Hazard Area (SFHA)**, ensure

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flood insurance covers **100% replacement cost**, with a **maximum deductible of \$25,000 per building**.

- Confirm that **Boiler & Machinery / Equipment Breakdown Insurance** is maintained for centralized heating, cooling, or elevators with a **\$2 million minimum coverage**.
- Ensure that **D&O insurance is in place** to protect HOA board members from lawsuits related to allegations of mismanagement or breaches of duty.
- Verify that **umbrella insurance is in place** if the property has high-risk amenities such as pools or playgrounds, with coverage of at least **\$1 million**.
- Confirm that **worker's compensation insurance** is in place if the HOA has direct employees.

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