Financing Condo Sales

Agent Forum
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What makes a condo non-warrantable?

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- The condo lacks financial stability and viability
- The condo's condition and marketability are need improvements
- There are limitations on the unit owner's ability to control the decision-making for the project, occupy the unit, or utilize the project's amenities and common elements;
- Litigation exists between the condo, the HOA, or the developer
- Misrepresentation and/or fraud has been
- An inability to cure a mortgage default due to restrictions in the project documents such as, but not limited to, right of first refusal provisions; and
- **Insurance coverage that is inadequate to protect the project from unexpected losses**

Trends in Non-Warrantable Condo Lending

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- The GSEs (Fannie Mae, Freddie Mac, Ginnie Mae) do not lend in Non-Warrantable Condos
  - There are very few investors interested in non-warrantable condo lending

- Local Banks that have historically allowed lending in non-warrantable projects have both increased pricing and tightened up on guidelines
  - Non-Warrantable Guidelines generally included the following
    - Lender concentration level above 25% not allowed
    - Percent of the project that is owned commercially or by a single owner
    - Timeshare/Fractional ownership in the project not allowed
    - Hotel/Front Desk operation not allowed
    - Illegal short term rental income not allowed
    - Structural litigation or Slip and Fall litigation not allowed (other lawsuits acceptable)

- The GSEs have increased review and questions surrounding deferred maintenance and structural concerns
    - Property management companies have refused to answer/document for the GSEs

How GSE's handle originators/servicers

- Origination
  - If an originator misrepresents a condo's warrantability the GSE can require that a lender buy back a loan
  - Recently lenders without servicing have had to take back loans or keep loans that they normally
- Servicing
  - If a servicer does not manage servicing within guidelines, the GSE reserves the right to pass any losses along to the Servicer
  - Regulators hold the servicer to the same standard of requirements regardless if they own the loan or have sold them
    - The greatest focus has been on federal flood requirements
    - Regulators review complaints for trends
      - Expect consistent treatment, policies, and documentation
      - Expect appropriate force placement and cancelation

Hurricane Sublimit Challenges for Local Lenders

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- Inability to sell to GSEs
  - If a condo does not have replacement cost coverage for Hurricane, it is non-warrantable
- Servicing will not meet standards
  - If a serviced loan is in a condo that no longer has sufficient Hurricane coverage, the servicer can be subject to Hurricane related losses due to insufficient coverage
- Existing portfolio loans now represent a significant loss risk in the event of a Hurricane
  - Local lenders hold most of the non-warrantable condo risk and now under insured condo risk for Hurricanes
- There is no hurricane force placement product like the ones that exist for hazard and flood
- Timing of these challenges come on the heels of insurance claim and rebuild challenges in Lahaina
  - Replacement Cost Values are insufficient to rebuild
  - Government involvement and litigation will delay rebuilding and income stability