# The Impact of Fannie Mae's Updated Lending Guidelines for Condominium & Cooperative Associations on Project Reviews and Reserve Funding

Client Alert

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## What You Need to Know

- Fannie Mae has updated its lending guidelines affecting all condominium and cooperative associations in New Jersey.
- Among other changes, effective **August 3, 2026**, the Limited Review process is eliminated, and associations must use the highest funding allocation listed in the reserve study.
- Boards should review their current reserve funding practices promptly to ensure compliance and preserve Fannie Mae financing eligibility.

On March 18, 2026, Fannie Mae issued Lender Letter LL-2026-03 which provided several updates to its lending guidelines that impact condominium and cooperative associations in New Jersey and across the country. While some updates became effective immediately, others are being phased in, with the first deadline occurring on August 3, 2026. These lending guidelines are important for conventional mortgages, as Fannie Mae purchases a high percentage of conventional mortgage loans.

This Client Alert focuses primarily on the significant updates related to capital reserve studies and capital reserve funding, which are most applicable to condominium and cooperative associations.

**Sunsetting of Limited Review Option**

As of August 3, 2026, the Limited Review process has been retired. The Limited Review process was essentially an abbreviated review process available to certain qualifying condominium or cooperative associations. However, as of August 3, all condominium and cooperative associations projects must now undergo the Full

Review process or apply for a Waiver of Project Review.

**Higher Reserve Funding Requirement**

Prior to the issuance of the Lender Letter, Fannie Mae guidelines required condominium and cooperative association projects undergoing Full Review to allocate a minimum of 10% of their budget to the funding of capital reserves. As of January 4, 2027, the minimum capital reserve allocation will increase to 15%. Projects undergoing Full Review must meet this increased funding requirement unless they can meet the reserve study standards outlined in the following section of this Alert.

Failure to meet the required capital reserve allocation funding requirement may result in an association being deemed ineligible for Fannie Mae or conventional financing.

**Reserve Study Requirements**

Reserve studies typically use one of three accepted funding models:

1. Full Funding: An association fully funds its reserve account, in accordance with the engineer's recommendations, so that the account is at or close to 100% funded at all times.
2. Threshold Funding: An association funds its reserve account, in accordance with its engineer's recommendations, to maintain the balance above a particular percentage or dollar amount.
3. Baseline Funding: An association funds its reserve account so that the balance may approach but never go below zero dollars.

Effective August 3, 2026, the Lender Letter revises the guidelines governing an association's use of a capital reserve study. A condominium or cooperative association that does not meet the capital reserve allocation outlined above is still permitted to use a capital reserve study to demonstrate that it is properly funding its reserve account, however the revised guidelines impose two additional requirements on associations using this alternative.

- First, an association is no longer permitted to use a baseline funding model.
- Second, an association is required to fund its capital reserves using the highest recommended funding model identified in the reserve study.

As a result, a condominium or cooperative association currently using a baseline funding method could make its community ineligible for Fannie Mae or conventional financing, which could then prevent current owners and buyers from obtaining mortgage loans or require them to pay higher interest rates.

Additionally, if an association's current reserve study includes a full funding option, the new guidelines require that option to be utilized. An association should discuss with its engineer/reserve specialist whether other funding options are available and more beneficial for this purpose, as failure to meet any of these new guidelines could result in the association being deemed ineligible for Fannie Mae or conventional financing.

While Fannie Mae's updated lending guidelines are not codified under New Jersey law, association boards should evaluate their current reserve funding practices and determine whether any changes are necessary to preserve eligibility for Fannie Mae or conventional financing.

Please contact the author of this Client Alert with questions or to discuss your association's specific circumstances.

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