

2025



CondoTek™

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# Agency Condo Insurance Requirements

An In-Depth Guide to Identify, Determine and Ensure Insurance Lending Compliance in Condo Properties

2025

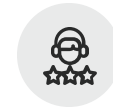
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CondoTek provides tech-enabled products and solutions that create efficiency, consistency and cost reduction for lenders when underwriting loans secured by condos/HOAs.

Our **CondoPak** product has become an industry standard for lenders to quickly obtain documents for review. Our **Condo Project Warrant (CPW)** product combines document acquisition with an eligibility decision. We accomplish this with leveraging our automation and best in class review team. Additionally, we warrant our decision with our buy-back guarantee. Our newest offering, the **Lending Compliance Report** provides the tools that property managers and boards need to determine whether a condo/co-op property is compliant with the most recent mortgage lending guidelines.



**Automated**



**High Quality Review**



**Multiple Resources**



**Consistent Data**



**Easy Ordering**



**Life of Loan Guarantee**

# CondoTek Services



Lender solution for project data collection. There are many components to condominium lending. CondoPak is your solution for an efficient, streamlined, and stress-free process.



The ultimate review solution that combines CondoPak and CondoTek lender review at a standardized flat rate. With a simple order process and quick completion.



There are many components to co-op lending. Co-op Pak is your solution for an efficient, streamlined, and stress-free process.



Portfolio, Fannie Mae, Freddie Mac and FHA Approval

CondoTek offers a complete solution for board members, managers and developers to review, align and approve condo and co-op properties for agency or portfolio lending.



# CondoTek Launches New Service



## Lending Compliance Report

Detailed lending compliance analysis for condo and co-op boards, attorneys, managers and owners. Complete analysis of governance, Insurance, budget, reserves, critical repairs, and financials.

# 2025 Condo Insurance Compliance Challenges

## OVERVIEW AND CURRENT ENVIRONMENT

- Rising Insurance Cost Environment
  - Inflation
- Carriers Declining Policy Continuation
  - Property Condition Analysis
  - Reserve Studies Required by Carrier
- Policies Offered at Higher Cost
  - Increased Deductibles That May Not Be Compliant
- Policy Terms Require Review and Update
  - Actual Cash Value
  - Guaranteed Replacement Cost; Special Form; All-Risk Form; Perils
  - Changes to Coinsurance; Guaranteed Replacement Cost and Actual Cash Value
  - Inflation Guard, Annual Review, Availability
- Geographic Limitations
  - Florida, California, Etc.

# Fannie Mae/Freddie Mac Policy: Property & Flood Coverage

**GSE CLARIFICATIONS: EFFECTIVE 6/1/2024**

- Actual cash value coverage is unacceptable, policies that limit, depreciate, reduce or otherwise settle losses at anything other than a replacement cost basis are also not acceptable.
- Lenders and servicers are responsible for verifying that the coverage amount meets GSE requirements as of the current insurance policy effective date.
- Fannie Mae states the minimum required perils that a policy must cover are those found in a commercial “Broad” coverage form, whereas Freddie Mac requires special form coverage.
- Coinsurance requirements have been removed as well as Outdated references to guaranteed replacement cost, extended replacement cost, and replacement cost coverage

# Actual Cash Value & Functional Replacement Cost

The master insurance policy must provide for claims to be settled on a replacement cost basis. Policies that (1) provide for claims to be settled on an actual cash value basis, or (2) **limit, depreciate, reduce or otherwise settle losses for less than a replacement cost basis are not eligible.**





# Replacement Cost



The master insurance policy coverage limit must be at least equal to 100% of the replacement cost value of the project's improvements, including Common Elements and residential structures, as of the current insurance policy effective date.

**Fannie and Freddie recommend several sources of verification, including:**

- **Insurer's Replacement Cost Estimator**
- **Independent insurance risk appraisal**
- **Statements from the insurer or other qualified professional as to the replacement cost or sufficiency of the existing coverage**

# Agreed Value/Amount & Replacement Cost

Fannie Guide 4703.2 (due to be removed 6-1-2024):

“inclusion of an agreed amount endorsement or selection of the agreed value option (which waives the requirement for coinsurance) is considered acceptable evidence that the 100% replacement cost requirement has been met. **If an agreed amount/agreed value provision is used, the agreed amount must be no less than the estimated replacement cost.**”







# Perils and Broad Coverage Form



Freddie: Special Form, with additional requirement to cover additional perils common and customary to the construction, location, and use.

Fannie: recommends special form coverage or equivalent, but policies which cover at a minimum the perils covered by broad form (and listed in the Fannie Guide at B7-3-03) can be acceptable.

**Any excluded or limited coverage of any of the required perils, then HOA must obtain an acceptable stand-alone policy which provides adequate coverage for the limited or excluded peril**

# Coinsurance

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- Both agencies are replacing all coinsurance requirements with the clarification that the requirement for the policy coverage limit represents 100% of the estimated replacement cost of the project at a minimum for all condo and co-op projects.





# Inflation Guard

**Issue:** Required to be included in every policy

**Why:** Due to rising inflation, the cost of insurance to associations and unit owners could increase substantially year over year. Inflation guard protects against that risk and surging insurance costs.

This endorsement is required when it is available in the insurance market to this HOA, **and for Freddie, when it is applicable to the coverage**

**Solution:** Associations and Property Managers Must Be Informed of Requirement







# Deductibles



- Freddie: The condominium homeowners association's policy deductible for fire, water (not caused by flooding) or wind damage to the insured improvements (generally designated as "building" in the insurance policy) may not exceed 5% of the limit maintained for building coverage.
- Fannie: Generally, the maximum allowable deductible for all required property insurance perils is 5% of the master property insurance coverage amount.



# Per-Unit Deductibles

- If the deductible exceeds the 5% maximum due to a **per unit deductible** for named perils **specific to a geographic area**, the Mortgage is eligible for sale if the Borrower's unit is covered by an owner's HO-6 policy which meets the following requirements:
  - **coverage for the applicable peril(s);**
  - **coverage for master property insurance policy deductible assessments** levied on the unit owner by the HOA or co-op corporation for the applicable peril(s); and
  - **loss assessment coverage in an amount sufficient to cover assessments in excess of 5%** of the master property insurance policy coverage amount, divided by the number of units.



# Special Coverage Requirement for Project Developments



## **Building Ordinance or Law Coverage**

The coverage must include:

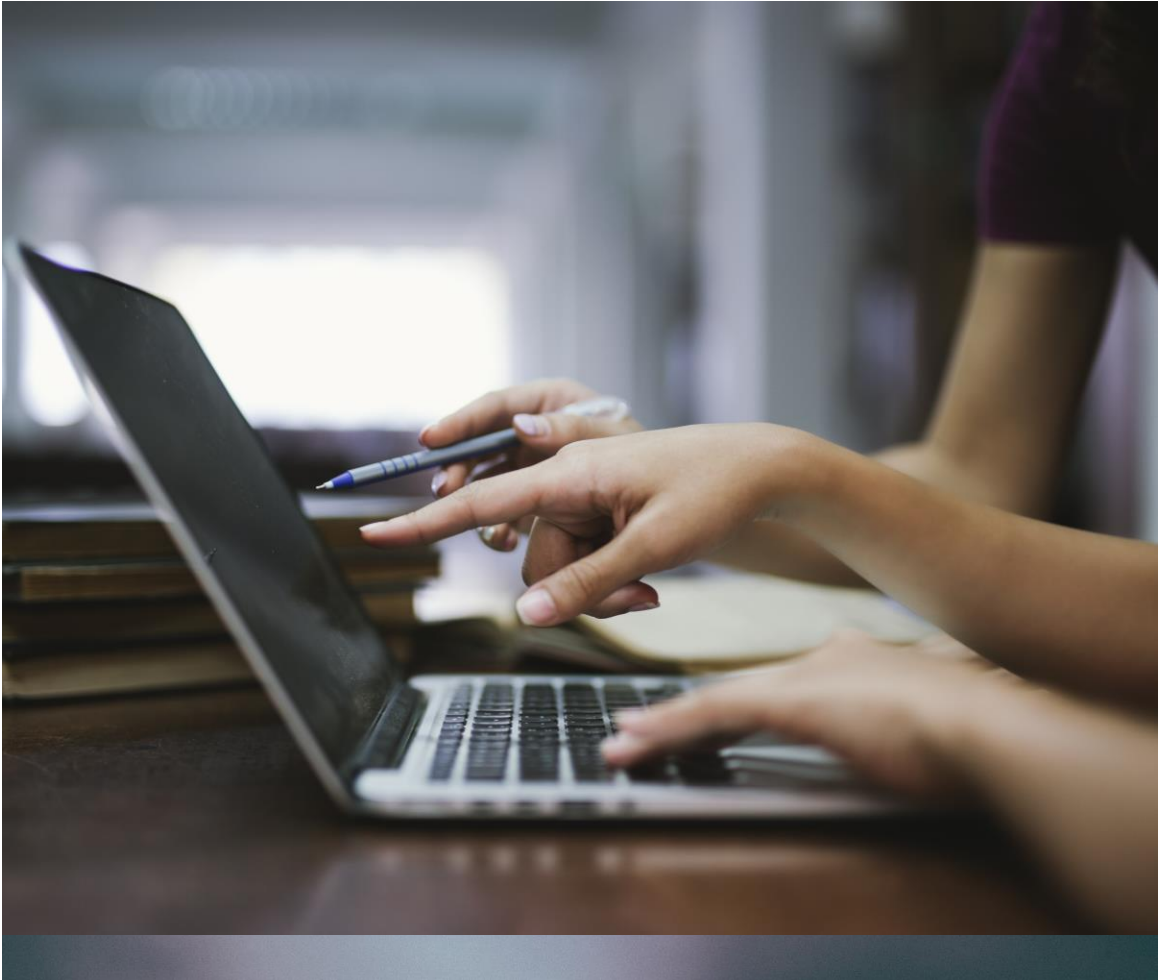
- Coverage A: loss to the undamaged portion of a building
- Coverage B: increased construction costs
- Coverage C: demolition costs

The coverage is not required if it is obtainable in the insurance market available to the association

## **Boiler and Machinery/Equipment Breakdown Coverage**

This coverage is required if the project development has central heating or cooling. The coverage amount must equal the lesser of \$2 million or the replacement cost value of the building(s) housing the boiler or machinery.

# Flood Insurance



- The condominium homeowner's association must maintain building coverage on the building for the lower of:
- 80% of the building's replacement cost or
- The maximum coverage amount available from NFIP per unit
- The condominium owner association must maintain **contents coverage** on the building for the lower of (i) the actual cash value (or for Fannie, 100% of the replacement cost) of the contents in the building that are owned in common by the association members or (ii) the maximum amount of contents coverage sold by the NFIP for a condominium building.

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# Contact Us

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## Attention HOA Board Members & Property Managers

### Determine if your Condo or Co-op Property Is Compliant For Lending

The CondoTek Lending Compliance Report provides the tools that property managers and boards need to determine whether a condo/co-op property is in compliance with the most recent mortgage lending guidelines.

#### Analysis

CondoTek uses proprietary automation to identify if a condo/co-op property is Fannie Mae, Freddie Mac or Portfolio lending compliant. Our highly analytical report provides specific details on governance, insurance, reserve, critical repair, special assessments and general mortgage lending compliance.



#### Compliance Report

The Lending Compliance Report provides an outline of compliance in a pass/fail overview and provides additional detailed guidance within our custom compliance recommendations. A Step-by-Step roadmap is created for boards, managers and owners to follow to ensure mortgage availability in their condo and co-op property.

#### Reviews and Metrics

We review by-laws, governing documents, Insurance policies, lending questionnaires, reserve study reports, engineering reports, budgets, special assessments, litigation, financials and critical repairs to the lending standards issued by Fannie Mae, Freddie Mac and banks offering portfolio lending to ensure compliance with both conventional and jumbo mortgage lending guidelines.

#### One Time Cost and Available Subscription

The CondoTek Lending Compliance Report can be ordered as "one-time" review or as an ongoing low-cost compliance subscription to ensure that condo and co-op management and ownership are constantly aware of critical lending guideline changes and impact to mortgage availability. Most clients choose to subscribe to our ongoing compliance review to ensure that condo/co-op property-wide analysis is updated every 90 days due to quarterly document analysis expiration guidelines. Being made aware of lending compliance quarterly allows all updated operational, insurance, pending litigation and property condition to be monitored so that unit owners and purchasers always have abundant mortgage availability and unit values remain constant and in line with the marketplace.

#### Ordering

To place an order for a Lending Compliance Report and/or Subscribe to our quarterly analysis email [mattmorris@condotek.com](mailto:mattmorris@condotek.com).