October 18, 2024

The Honorable Sandra L. Thompson
Director
Federal Housing Finance Agency
400 7th Street, SW
Washington, DC 20219

RE: Request for Review and Revision of the Master Insurance Policy Deductible Guideline

Dear Director Thompson,

The Mortgage Bankers Association (MBA)[1] appreciates the opportunity to advocate for critical updates to the condominium loan eligibility guidelines established by Fannie Mae and Freddie Mac (the Enterprises). The Federal Housing Finance Agency (FHFA), the Enterprises, and MBA share a common goal of promoting stable and affordable access to financing for this important sector of the housing market.

In pursuit of this objective, we want to highlight serious industry concerns among our residential condominium lending members with the current 5 percent deductible limit on master condominium insurance policies. This requirement is an increasingly significant barrier for lenders, homeowners' associations (HOAs), and, most importantly, prospective homebuyers.

Overview of the Issue and Industry Observations Regarding Master Insurance Policy Deductible Guideline

Condominiums are a vital, affordable entry point for first-time and underserved homebuyers. However, federal financing challenges and local regulations have hindered many borrowers' ability to finance these units. The Enterprises' current deductible restriction on master

[1] The Mortgage Bankers Association (MBA) is the national association representing the real estate finance industry, an industry that employs more than 275,000 people in virtually every community in the country. Headquartered in Washington, D.C., the association works to ensure the continued strength of the nation's residential and commercial real estate markets, to expand homeownership, and to extend access to affordable housing to all Americans. MBA promotes fair and ethical lending practices and fosters professional excellence among real estate finance employees through a wide range of educational programs and a variety of publications. Its membership of more than 2,000 companies includes all elements of real estate finance: independent mortgage banks, mortgage brokers, commercial banks, thrifts, REITs, Wall Street conduits, life insurance companies, credit unions, and others in the mortgage lending field. For additional information, visit MBA's website: **www.mba.org**.

insurance policies, which limits deductibles to 5 percent of the policy maximum, has become a significant obstacle to eligibility for many condominium projects. It also pushes many condominiums that *are* eligible out of an affordable range.

Our discussions with leading national mortgage lenders reveal that this deductible limitation affects roughly 40 percent of all condominiums. The rapid rise in insurance costs is the primary driver as HOAs attempt to limit the pass-through of insurance costs to the condominium owner. According to some lenders, over 60 percent of agency guideline issues related to condominium loans are specifically attributable to this deductible limit. Alarmingly, one lender reported that approximately 90 percent of their non-agency condominium origination volume would meet agency eligibility requirements but for the deductible limit. As a result, these buyers face higher rates and fees through no fault of their own.

The ripple effect is particularly pronounced in high-cost markets such as Florida, Hawaii, and Massachusetts. Condominium ownership is essential in these areas specifically because of their more affordable price points in highly desirable locations. Land scarcity in these areas has driven up prices for single-family homes, making them inaccessible to many potential buyers, particularly for first-time homebuyers. Most non-warrantable condominium loan programs - usually the only outlet for condominium loans with insurance deductible issues - require a significantly larger minimum down payment of 35 percent to 40 percent thus eliminating most, if not all, first-time homebuyers.

Insurance experts have noted that coverage changes typically occur gradually, often over two years. MBA member companies are already observing a trend toward higher deductibles that exceed the current 5 percent limit. To manage increasing insurance expenses and align deductibles with guidelines, several HOAs are opting for actual cash value (ACV) policies. These policies consider asset depreciation, impacting project eligibility for new enterprise loans that require replacement cost value (RCV) coverage. Moreover, insurers are implementing sub-limits and eliminating coverage for specific perils, such as wind, hail, or water damage. In Florida, state laws restrict insurance companies from using such language, complicating the process of obtaining replacement cost estimates.

These cost-cutting measures risk leaving condominium projects inadequately insured and may jeopardize eligibility for other affordable mortgage financing options. One MBA member described a notable example - a high-rise condominium in Hawaii, where the HOA's insurance premium skyrocketed from $267,000 to $1.8 million annually - an increase of 674 percent - just to meet the current Enterprise deductible requirements. Such drastic cost increases are unsustainable and unfair to homeowners, and we must work together to find alternatives to mitigate the premium increases.

Policy Proposal Changes

To address these challenges, MBA proposes the following revisions to the Enterprises' deductible guidelines:

1. **Increase the Allowable Deductible:** Raise the deductible limit to 10 percent or up to $50,000 per unit for all perils. This adjustment would alleviate the financial strain on HOAs and ensure that more condominium loans can meet eligibility criteria.

2. **Accept the Actual Cash Value for Roofs Older than 10 Years Old:** We request that the Enterprises consider implementing this as a *temporary* measure while the insurance industry stabilizes and assesses whether carriers will require this language to mitigate the risk of financing capital improvements through insurance claims.

MBA believes these changes will provide significant relief to lenders, HOAs, and prospective homebuyers, facilitating greater access to condominium loans and supporting the overall affordability, supply, and stability of the housing market. Additionally, we think these proposed policies align with the enterprises' statutory mission and long-term interests. We recognize these changes do expose the Enterprises to incremental risks on condominium loans and want to work with the Enterprises to mitigate those risks at the unit level, while still lowering the cost of coverage on the project.

Thank you for considering our proposal. We look forward to discussing these recommendations further and working together to enhance the Enterprise condominium loan eligibility guidelines. We also look forward to continuing our partnership as we work toward practical solutions that promote and sustain condominium lending, a pillar of the affordable housing market. Should you have questions or wish to discuss these comments, please contact John McMullen, AMP, at (202) 557-2706 and jmcmullen@mba.org.

Sincerely,

Pete Mills
Senior Vice President
Residential Policy and Strategic Industry Engagement
Mortgage Bankers Association