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A Secret Mortgage Blacklist Is Leaving Homeowners Stuck With Unsellable Condos

Fewer homes can get Fannie Mae-backed mortgages, a response to Surfside condo collapse and insurance crunch

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Condominium owners across the country are facing a paralyzing problem: They can't sell their properties because of a fast-growing and mostly secret mortgage blacklist.

Real-estate agent Paul Gangi was days away from closing a sale of his listing in Shadow Ridge, a 440-unit townhouse and condo complex in Ventura County, Calif., in December. That is when his phone rang.

"I got a panicked call from the lender saying, 'Sorry, we've just found out Shadow Ridge has been blacklisted,'" he said. The buyer tried several other options for getting a loan, without success, and the sale collapsed.

The blacklist is maintained by Fannie Mae and includes condo associations that the mortgage finance giant thinks don't have adequate property insurance or need to make critical building repairs. Being on the list can make it harder for potential buyers to get a mortgage.

According to lenders and real-estate agents, * Fannie Mae greatly expanded the list after the Surfside condo collapse in Florida in 2021 killed 98 people. Compounding the problem, a nationwide insurance crisis is making it more expensive for condo associations to afford adequate coverage.

The number of properties that fail to meet Fannie Mae's standards has risen to 5,175 this month from a few hundred before Surfside, according to Stephen Marcus, a condo lawyer at Boston law firm Allcock & Marcus. Like other industry legal and finance players, he has access to the list of properties that don't meet the criteria.

Fannie Mae and sister organization Freddie Mac don't make loans, but buy roughly half of the country's home loans from lenders and package them to sell to investors, then guarantee payments on them. Loans that meet Fannie or Freddie's underwriting standards, known as conforming loans, can be less expensive and require lower down payments than bespoke mortgages.

To ensure the debt can be repaid should the property be damaged or destroyed, Fannie and Freddie have long required a minimum level of insurance coverage for home loans they are willing to buy.

Last year, the firms issued clarifications of these guidelines, detailing policy no-nos that have prompted lenders to take a stricter line on insurance requirements, according to lenders, real-estate agents and insurers.

A spokeswoman for Fannie said its requirements are designed to "help protect borrowers from physically unsafe or financially unstable projects." She disagreed with characterizing Fannie's database of projects, which includes properties that both do and don't meet its lending criteria, as a blacklist. She said the firm provides an online tool that allows lenders to check whether it accepts loans from a given project.

Freddie has similar insurance requirements to Fannie. A Freddie spokesman said it doesn't maintain a list of condo developments that don't meet its criteria.

Florida has more than 1,400 developments blacklisted. That is in part because of a strict condo safety law enacted following the Surfside disaster. The next four states featuring heavily on the blacklist—California, Colorado, Hawaii and Texas—are prone to natural disasters and restrictive insurance policies.

Fannie and Freddie's insurance requirements, once an easily passed check box, are proving a formidable hurdle for a growing pool of home buyers and sellers.

After Robert Cenzon listed his two-bedroom condo in Dallas for sale last year, he learned that his neighbor's sale had fallen through and that the neighbor had ended up selling the unit for cash at a lower price. Cenzon's unit sat on the market for months, and he cut the price from $239,000 to $170,000.

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He accepted an offer at that price, but the buyer's mortgage was denied because the condo association's insurance policy didn't provide replacement cost value for some amenities, including the pool, Cenzon said.

The association told him that it could buy additional insurance but that Cenzon would need to cover the cost, he said. Instead, the buyer found another lender that was willing to make the loan.

"I just got lucky" that the sale went through, Cenzon said. "Otherwise, I think I'd probably still be stuck with that place."

Condo association board members say insurers have aggressively raised prices in recent years, pushing up the cost of policies that Fannie and Freddie will accept to eye-watering levels.

One reason for the jump in insurance costs: Insurers now want to pay for the depreciated value of a damaged roof, rather than the full replacement cost, a feature Fannie and Freddie oppose. Many insurers also want to raise deductibles higher than Fannie or Freddie allow.

A lot of associations are trying to reduce soaring insurance rates by agreeing to pared-down policies that can make their condos ineligible for mortgages backed by Fannie and Freddie. Some homeowners' sales are falling through, and others are looking for buyers who can pay cash or get other types of loans.

Shadow Ridge, the Los Angeles complex blacklisted in December, is in a brushfire zone but escaped this year's infernos. Its homeowner's association was recently quoted $2.6 million a year for a Fannie-compliant policy, 10 times the current rate, according to Jinah Kim, one of the board members.

"The timing of the blacklisting is horrific," she said." Even though we were spared in the fires, we now don't have a snowball's chance in hell of getting affordable insurance." Sticking with a noncompliant policy likely won't affect homeowners' existing mortgages, but can make it much harder to find buyers, as they won't have access to conforming loans.

Fannie blacklisted Shadow Ridge because it has a so-called pooled policy, covering more than one project, association documents show.

Meeting Fannie's requirement for a stand-alone policy, covering Shadow Ridge alone, would push up its monthly homeowner fees from $570 to around $1,100 or even more, according to Gangi.

"That is totally unrealistic, especially for the folks that might be elderly or on a fixed income," he said.

At an industry level, insurers are in a standoff with Fannie and Freddie over the issue. The insurance industry is lobbying Fannie and Freddie's government overseer, the Federal Housing Finance Agency, to force them to dilute their requirements.

“We saw the Fannie and Freddie guidelines and we’re like ‘whoa, whoa, whoa, that will destroy an entire marketplace,’” said Jimi Grande, a senior vice president at the National Association of Mutual Insurance Companies.

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What will be the ripple effects as the insurance crisis hits condos? Join the conversation below.

Backers of Fannie and Freddie say the tighter insurance requirements ensure that homeowners could afford to rebuild if needed.

“The argument of trying to loosen things up so that people can buy is unfortunately very shortsighted,” said Donna Corley, chief executive at Guiding Star Advisory and a former executive at Freddie Mac. “Then you have someone in the property without, potentially, the insurance that is needed to keep things stable while they are there.”

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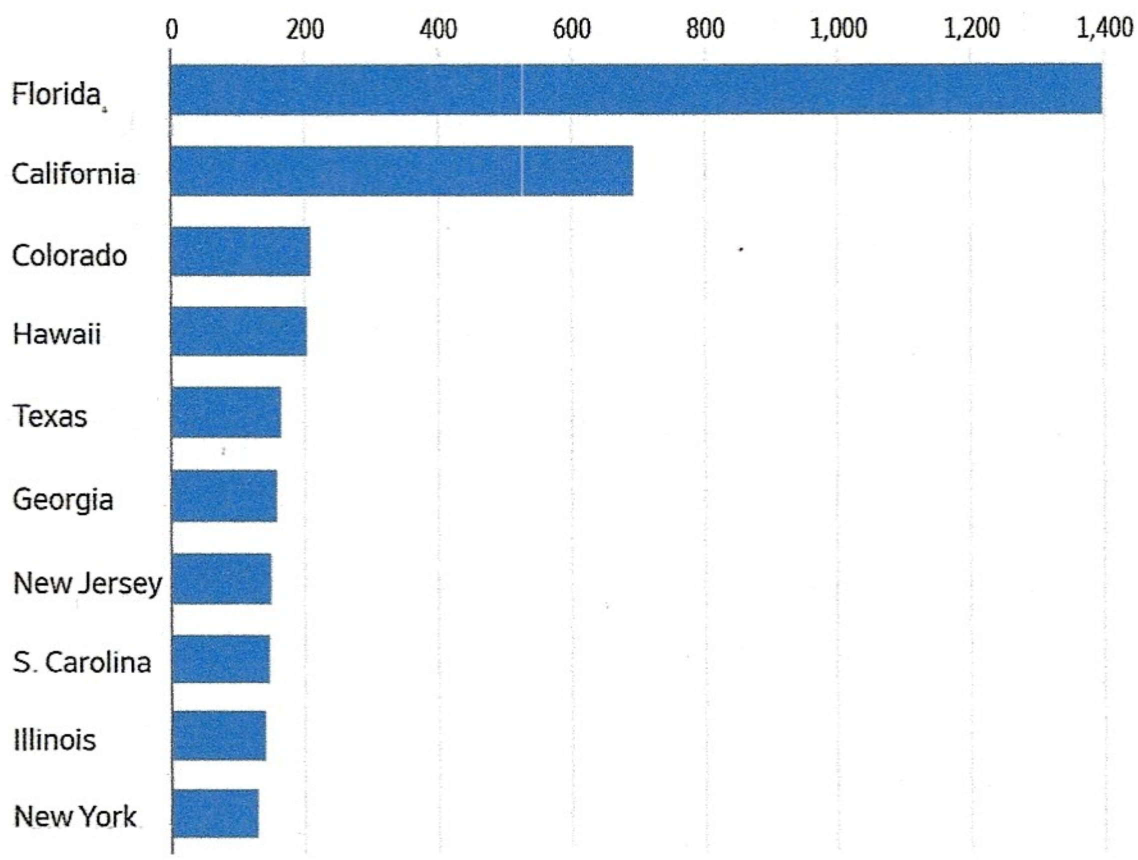
The 10 states with the most condo projects blacklisted by Fannie Mae



Note: Number of condo and co-op projects blacklisted as of Feb. 5, 2025
Source: Allcock Marcus

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