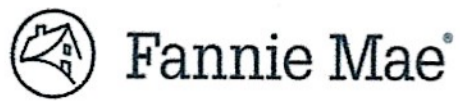


See Page 3
Increased Replacement Reserves



Lender Letter (LL-2026-03)

March 18, 2026

To: All Fannie Mae Single-Family Sellers/Servicers Updates to Project Standards & Property Insurance Requirements

In response to industry feedback and evolving market conditions, we are announcing various updates to our project standards policies, as well as property insurance requirements for one-to four-unit properties and project developments. These changes are in alignment with Freddie Mac and in coordination with U.S. Federal Housing (FHFA) and reflect our commitment to supporting sustainable homeownership and reducing operational complexity for sellers and servicers. We are issuing these property insurance and project standards updates together to ease the transition and address the interests of borrowers, unit owners, project developments and Fannie Mae.

We recognize that in certain areas, rising premiums and limited insurance availability are creating challenges for borrowers and homeowners' associations. At the same time, we remain focused on mitigating risks of inadequate protection against property loss, including underinsurance and underfunded condo projects.

To that end, we are introducing targeted policy updates that provide lenders and servicers with greater flexibility and operational simplicity. These updates will help ensure borrowers and homeowners' associations have access to insurance that is compliant with Fannie Mae's insurance requirements. They also balance the strengthened project standards requirements designed to promote the financial resilience and long-term sustainability of condo projects.

Together, these changes are designed to support a more stable, accessible, and sustainable housing finance system.

We are updating certain project standards throughout Selling Guide Chapter B4-2, Project Standards and property insurance requirements and related lender and servicer responsibilities throughout Selling Guide Chapter B7-3, Property and Flood Insurance and Servicing Guide Chapter B2, Property Insurance Requirements. Lenders and servicers must continue to refer to existing requirements in these Chapters unless otherwise updated with this Lender Letter. This Lender Letter provides information about the following:

Project Standards Updates

- Expansion of Waiver of Project Review
- Retirement of PERS review for new condo projects with attached units in Florida
- Retirement of investor concentration limits
- Retirement of the Limited Review process
- Enhanced reserve study requirements
- Increased replacement reserve requirements

Property Insurance Updates

- Policies Applicable to Sellers and Sellers/Servicers
 - Property Insurance Requirements for One-to Four-Unit Properties
 - Master Property Insurance Requirements for Project Developments
 - Individual Property Insurance Requirements for a Unit in a Project Development
- Additional Policies Applicable to Servicers Only
 - Property Insurance Requirements for One- to Four-Unit Properties
 - General Requirements



Project Standards Updates

In 2023, we incorporated significant deferred maintenance and unsafe condition (i.e., critical repairs) requirements for condo projects into the [Selling Guide](#). Since then, we have seen a correlation between condo projects with underfunded reserves for capital expenditures and those in need of critical repairs. Condo projects with inadequate reserves typically do not have the requisite resources to maintain the physical condition of the project or to fund unexpected operating expenses. As a result, unit owners can experience substantial financial hardship from unexpected special assessments or higher regular assessments or dues, leading to mortgage default or foreclosure.

Our revised requirements are intended to improve the financial health of condo projects and promote long-term sustainable homeownership.

Expansion of Waiver of Project Review

We are expanding eligibility for a Waiver of Project Review to include new and established projects with ten or fewer units. For projects consisting of five- to ten-units, the project must not be part of a master association or larger development. Lenders who use this option must comply with all *Requirements that Apply When the Project Review is Waived* in [Selling Guide B4-2.1-02, Waiver of Project Review](#). This includes, but is not limited to, the following:

- the project does not have an “Unavailable” status in Condo Project Manager™ (CPM™),
- the project meets all applicable insurance requirements in *Selling Guide B7-3, Property and Flood Insurance*, and
- there are no critical repairs or evacuation orders in place if the loan is a Fannie Mae to Fannie Mae limited cash-out refinance.

NOTE: *As stated in [Selling Guide B7-4-01, General Liability Insurance Requirements for Project Developments](#), general liability and fidelity insurance are not required for condo projects that qualify for a Waiver of Project Review.*

Effective: Lenders may take advantage of this change immediately. The Desktop Underwriter® (DU®) messages related to Waiver of Project Review will be updated in a future release.

Retirement of PERS review for new condo projects with attached units in Florida

We are retiring the requirement that new or newly converted projects with attached units in Florida must be submitted to Fannie Mae’s Project Eligibility Review Service (PERS). Approval of these projects, like all other new projects with attached units, can be reviewed under the lender-delegated Full Review process.

Effective: Lenders may take advantage of this change immediately. Regarding the state-specific project review guidelines, CPM has been updated and DU messages will be updated in a future release.

Retirement of investor concentration limits

We are retiring the investment property concentration limit of 50% in established projects reviewed as part of the Full Review option on investor loans.

NOTE: *The presale requirement that at least 50% of the total units in the project or subject legal phase must have been conveyed or be under contract for sale to principal residence or second home purchasers still applies as described in [Selling Guide B4-2.2-03, Full Review: Additional Eligibility Requirements for Units in New and Newly Converted Condo Projects](#).*

Effective: Lenders may take advantage of this change immediately. Regarding the investor concentration guidelines, CPM has been updated and DU messages will be updated in a future release.



Retirement of the Limited Review process

We are retiring the Limited Review process. Established projects previously eligible for Limited Review must now be reviewed using the Full Review process or, when applicable, the Waiver of Project Review process in *Selling Guide* [B4-2.1-02, Waiver of Project Review](#).

NOTE: *This change effectively retires the remaining geographic restrictions that apply to the state of Florida. Geographic restrictions remain in effect until the Limited Review process is retired on August 3, 2026.*

Effective: Lenders may implement the retirement of Limited Review immediately but must do so for all loan applications dated on or after Aug. 3, 2026. DU messages related to the Limited Review process will be updated in a future release.

Enhanced reserve study requirements

Current policy allows lenders to obtain a reserve study to demonstrate a project has sufficient reserves when it is not budgeting for replacement reserves that meet our *Selling Guide* requirements. We are updating this policy to clarify when lenders use this flexibility, they must verify the project's budget includes the highest recommended reserve allocation amount in the reserve study to adequately cover the costs identified.

NOTE: *Lenders are no longer permitted to use the baseline funding method which is the option that allows the reserve cash balance to approach but never fall below zero.*

Effective: Lenders are encouraged to implement this change immediately but must do so for all loan applications dated on or after Aug. 3, 2026.

Increased replacement reserve requirements

We are revising our reserve allocation requirement for capital expenditures and deferred maintenance from a minimum of 10% to a minimum of 15% of the annual budgeted income assessment. All other requirements related to replacement reserves and the review of budget adequacy remained unchanged.

Effective: Lenders must comply with this requirement when utilizing the Full Review process for all loan applications dated on or after Jan. 4, 2027. CPM lender certifications will be updated in a future release.

Property Insurance Updates

In February 2024, we made clarifications to our property insurance requirements. Since publication of these clarifications, we have heard concerns from industry partners about lenders' and servicers' ability to comply with certain property insurance requirements. In response to this feedback, we conducted extensive market outreach and are making various updates to our requirements as a result of these collaborative efforts.

Policies Applicable to Sellers & Sellers/Servicers

Property Insurance Requirements for One-to Four-Unit Properties

Coverage sufficiency

We are retiring the requirements related to documenting the replacement cost value to verify the property insurance policy coverage amount contained in *Determining the Required Coverage Amount* in *Selling Guide* [B7-3-02, Property Insurance](#)



Requirements for One-to Four-Unit Properties in their entirety. We are also retiring the requirement to insure roofs on a replacement cost basis, as described in *Coverage Requirements in Selling Guide*, [B7-3-02, Property Insurance Requirements for One-to Four-Unit Properties](#).

With this Lender Letter, the requirement for coverage sufficiency is as follows:

The property insurance policy must provide coverage on a replacement cost basis, with the exception of roofs; property insurance policies that provide such terms of coverage will be deemed to provide sufficient coverage.

NOTE: *Roofs must be insured, but do not have to be insured on a replacement cost basis.*

NOTE: *Fannie Mae recognizes that some insurers may issue policies that provide coverage on an actual cash value basis for personal property and structures that are not buildings. In the event the lender or servicer sees such terms in a property insurance policy covering a one- to four-unit property, this is acceptable.*

All other requirements in *Coverage Requirements in Selling Guide* [B7-3-02, Property Insurance Requirements for One-to Four-Unit Properties](#) remain unchanged.

Effective: These changes are effective immediately.

Master Property Insurance Requirements for Project Developments

Coverage sufficiency

We are revising the requirements related to documenting the replacement cost value to verify the master property insurance policy coverage amount contained in *Determining the Required Coverage Amount in Selling Guide* [B7-3-03, Master Property Insurance Requirements for Project Developments](#) in their entirety. Additionally, we are retiring the requirement to insure roofs on a replacement cost basis, as described in *Coverage Requirements in Selling Guide* [B7-3-03, Master Property Insurance Requirements for Project Developments](#). Last, we are retiring the requirement that project developments have inflation guard coverage as described in *Special Coverage Requirements for Project Developments in Selling Guide* [B7-3-03, Master Property Insurance Requirements for Project Developments](#).

With this Lender Letter, the following table describes the coverage sufficiency requirements for master property insurance policies.



| Requirements to Confirm Coverage Sufficiency for Project Developments | |
|-----------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Coverage sufficiency | <p>The master property insurance policy coverage amount must equal at least 100% of the estimated replacement cost value of the project improvements, including common elements and residential structures.</p> <p>The lender or servicer may rely on any one of the following to document that the coverage amount is sufficient:</p> <ul style="list-style-type: none"> • guaranteed replacement cost coverage, or its equivalent; • extended replacement cost coverage, or its equivalent; • a replacement cost value estimate provided by the insurer; • the project’s insurance risk appraisal; or • a statement from the insurer or other applicable professional with appropriate expertise to make such a determination. |
| Loss settlement | <p>The master property insurance policy must provide coverage on a replacement cost basis, with the exception of roofs.</p> <p>NOTE: <i>Roofs must be insured, but do not have to be insured on a replacement cost basis.</i></p> <p>NOTE: <i>Fannie Mae recognizes that some insurers may issue policies that provide coverage on an actual cash value basis for personal property and certain property elements. In the event the lender or servicer sees such terms in a master property insurance policy covering a project development, this is acceptable.</i></p> |

NOTE: See *Acceptable Evidence of Master Property Insurance Policies in Servicing Guide B-2-03, Master Property Insurance Requirements for Project Developments* for additional servicer options related to property insurance covering project developments.

All other requirements in *Coverage Requirements* and *Special Coverage Requirements for Project Developments* in *Selling Guide B7-3-03, Master Property Insurance Requirements for Project Developments* remain unchanged.

Effective: These changes are effective immediately.

Deductible requirements

We are updating our requirements related to per unit deductibles in *Deductible Requirements* in *Selling Guide B7-3-03, Master Property Insurance Requirements for Project Developments*.

With this Lender Letter, the maximum allowable per unit deductible for all required property insurance perils covered by a master property insurance policy is \$50,000 per unit.

NOTE: When the master property insurance policy has a per unit deductible, the borrower must have a unit owners property insurance policy, in accordance with the requirements set forth in “Determining when a policy is required & coverage sufficiency” in “Individual Property Insurance Requirements for a Unit in a Project Development” below.

All other requirements in *Deductible Requirements* in *Selling Guide B7-3-03, Master Property Insurance Requirements for Project Developments* remain unchanged.



Effective: Lenders are encouraged to implement these changes immediately but must do so for all loans with application dates on or after July 1, 2026.

Individual Property Insurance Requirements for a Unit in a Project Development

Determining when a policy is required & coverage sufficiency

We are replacing the requirements related to when a borrower is required to obtain an individual property insurance policy, as described in *Determining if an Individual Property Insurance Policy on a Unit in a Project Development is Required* in *Selling Guide B7-3-04, Individual Property Insurance Requirements for a Unit in a Project Development*, in their entirety. Additionally, we are replacing the requirements related to coverage sufficiency, as described in *Determining the Required Coverage Amount* in *Selling Guide B7-3-04, Individual Property Insurance Requirements for a Unit in a Project Development*, in their entirety.

With this Lender Letter, the following table describes requirements for individual property insurance policies.

| Requirements for Individual Property Insurance Policies | |
|-----------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Determining when a unit owners property insurance policy is required | <p>The borrower must have a unit owners property insurance policy when:</p> <ul style="list-style-type: none"> any portion of the interior of the unit or improvements to the unit are not covered by the master property insurance policy, or the master property insurance policy includes a per unit deductible. |
| Coverage sufficiency | <p>The minimum amount of coverage required for a unit owners property insurance policy must be at least equal to the greater of:</p> <ul style="list-style-type: none"> an amount sufficient to cover any portion of the interior of the unit or improvements to the unit not covered by the master property policy in order to restore the unit to its condition prior to a loss event; or the amount of the per unit deductible, if the master property insurance policy has a per unit deductible. <p>Coverage amount sufficiency should be based on the best information known or available to the lender or servicer, which may include information obtained from the borrower in collaboration with the insurer or insurance agent, the HOA or co-op corporation legal documents, or other professional with appropriate expertise to make such a determination.</p> <p>Fannie Mae recommends that lenders and servicers encourage borrowers to closely collaborate with an insurance professional to determine their individual insurance needs.</p> |
| Required perils | <p>See <i>Coverage Requirements</i> in <i>Selling Guide B7-3-02, Property Insurance Requirements for One-to Four-Unit Properties</i> for the coverage requirements when a unit owners property insurance policy is required for a unit in a project development.</p> <p>If the master property insurance policy includes a per unit deductible applicable to a specific required peril, the unit owners property insurance policy must include coverage for that peril.</p> |
| Loss Settlement | <p>The unit owners property insurance policy must provide coverage on a replacement cost basis.</p> |

Effective: The updates to required perils and loss settlement are effective immediately. Lenders are encouraged to implement the remaining changes immediately but must do so for all loans with application dates on or after July 1, 2026.



Deductible requirements

We are replacing our maximum deductible requirements in *Deductible Requirements in Selling Guide B7-3-04, Individual Property Insurance Requirements for a Unit in a Project Development* in their entirety.

With this Lender Letter, the maximum allowable deductible for a unit owners property insurance policy for all required property insurance perils is the greater of

- 5% of the property insurance coverage amount, or
- \$2,500.

Effective: These changes are effective immediately.

Additional Policies Applicable to Servicers Only

Property Insurance Requirements for One- to Four-Unit Properties

Coverage sufficiency

We are updating certain requirements for monitoring property insurance policies in *Servicing Guide B-2-01, Property Insurance Requirements Applicable to All Property Types* and *B-2-02, Property Insurance Requirements for One-to Four-Unit Properties*.

With this Lender Letter, the requirements for servicers to monitor property insurance policies for one-to four-unit properties are as follows:

While the servicer remains obligated in accordance with *Selling Guide A2-1-03, Indemnification for Losses*, the following table describes Fannie Mae's minimum requirements for monitoring property insurance policies depending on whether the policy obtained is a new or renewal policy.



| New or Renewal Policy | Minimum Requirements | | | | | | | |
|-------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|----------------------------------|----------|-------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| New Policy | <p>The servicer must confirm that the property insurance policy meets</p> <ul style="list-style-type: none"> the requirements related to insurer rating, deductible, and perils in accordance with <i>Selling Guide B7-3, Property and Flood Insurance</i>; and the replacement cost coverage requirements in “<i>Coverage Sufficiency in Property Insurance Requirements for One-to Four-Unit Properties</i>” in this Lender Letter. | | | | | | | |
| Renewal Policy | <p>At least annually, the servicer must confirm that the property insurance policy meets</p> <ul style="list-style-type: none"> the requirements related to insurer rating, deductible, and perils in accordance with <i>Selling Guide B7-3, Property and Flood Insurance</i>; and the replacement cost coverage requirements in “<i>Coverage Sufficiency in Property Insurance Requirements for One-to Four-Unit Properties</i>” in this Lender Letter. <p>If, based on the initial evidence of insurance provided, the servicer is unable to confirm whether the policy meets the replacement cost coverage requirements, then the servicer is authorized to determine whether the policy coverage amount in the policy under review has decreased from the last known coverage amount and take the action described in the following table.</p> <table border="1" data-bbox="423 1122 1989 1828"> <thead> <tr> <th data-bbox="423 1122 1209 1170">If the policy coverage amount...</th> <th data-bbox="1209 1122 1989 1170">Then....</th> </tr> </thead> <tbody> <tr> <td data-bbox="423 1170 1209 1514">has decreased from the last known coverage amount or the servicer cannot determine the last known coverage amount</td> <td data-bbox="1209 1170 1989 1514">the servicer must take additional steps it deems appropriate to confirm that the property insurance policy meets the replacement cost coverage requirements in “<i>Coverage Sufficiency</i>” in “<i>Property Insurance Requirements for One-to Four-unit Properties</i>” in this Lender Letter and document its efforts in the individual mortgage loan file.</td> </tr> <tr> <td data-bbox="423 1514 1209 1828">has not decreased from the last known coverage amount</td> <td data-bbox="1209 1514 1989 1828">any additional action the servicer takes to confirm that the property insurance policy meets the replacement cost coverage requirements in “<i>Coverage Sufficiency</i>” in “<i>Property Insurance Requirements for One-to Four-unit Properties</i>” in this Lender Letter is at its discretion.</td> </tr> </tbody> </table> | | If the policy coverage amount... | Then.... | has decreased from the last known coverage amount or the servicer cannot determine the last known coverage amount | the servicer must take additional steps it deems appropriate to confirm that the property insurance policy meets the replacement cost coverage requirements in “ <i>Coverage Sufficiency</i> ” in “ <i>Property Insurance Requirements for One-to Four-unit Properties</i> ” in this Lender Letter and document its efforts in the individual mortgage loan file. | has not decreased from the last known coverage amount | any additional action the servicer takes to confirm that the property insurance policy meets the replacement cost coverage requirements in “ <i>Coverage Sufficiency</i> ” in “ <i>Property Insurance Requirements for One-to Four-unit Properties</i> ” in this Lender Letter is at its discretion. |
| If the policy coverage amount... | Then.... | | | | | | | |
| has decreased from the last known coverage amount or the servicer cannot determine the last known coverage amount | the servicer must take additional steps it deems appropriate to confirm that the property insurance policy meets the replacement cost coverage requirements in “ <i>Coverage Sufficiency</i> ” in “ <i>Property Insurance Requirements for One-to Four-unit Properties</i> ” in this Lender Letter and document its efforts in the individual mortgage loan file. | | | | | | | |
| has not decreased from the last known coverage amount | any additional action the servicer takes to confirm that the property insurance policy meets the replacement cost coverage requirements in “ <i>Coverage Sufficiency</i> ” in “ <i>Property Insurance Requirements for One-to Four-unit Properties</i> ” in this Lender Letter is at its discretion. | | | | | | | |

Upon identifying that a property insurance policy does not comply with one or more of the above requirements, the servicer must notify the borrower of the insufficiency.

The servicer must have procedures that describe the methods used to adhere to the minimum monitoring requirements. If the servicer relies on a process to monitor for instances when a policy’s coverage amount decreases, the procedures must describe the methods used to monitor for coverage decreases and the subsequent steps to confirm evidence of coverage that meets our requirements. Additionally, the servicer’s procedures must describe the steps, as applicable, used to attempt to resolve a non-compliant property insurance policy, which may include lender-placed insurance.

General Requirements

Annual Insurance Reminder

We are establishing a new requirement with this Lender Letter. At least annually, the servicer must provide a reminder to the borrower of their responsibility to maintain insurance on the property and recommend they contact their insurance provider to review their coverage. The servicer is authorized to include such reminder in or with another borrower communication and may



refer the borrower to applicable borrower-facing insurance information on Fannie Mae's or the servicer's website. Additionally, the servicer is authorized to use any outreach method permitted by applicable law.

Lender-placed insurance

We are modifying our requirements related to obtaining lender-placed property insurance coverage, as described in *Servicing Guide B-2-01, Property Insurance Requirements Applicable to All Property Types*. The servicer must obtain lender-placed insurance in response to notification that coverage is being cancelled, non-renewed, or has lapsed, in accordance with *Servicing Guide B-6-01, Lender-Placed Insurance Requirements*.

All other requirements in *Servicing Guide B-2-01, Property Insurance Requirements Applicable to All Property Types* remain unchanged.

Effective: With respect to all servicing policies in this Lender Letter, servicers are encouraged to implement these changes immediately but must do so by Jan. 1, 2027.

NOTE: *The selling policy updates set forth above are not intended to impact servicers' current processes for monitoring coverage for unit owners' property insurance policies for units in a project development or master property insurance policies for project developments, as applicable.*

Lenders may contact their Fannie Mae Account Team if they have questions about this Lender Letter. Servicers who have questions may contact their Fannie Mae Servicing Manager or Fannie Mae's Single-Family Servicer Resource Center at 1-800-2FANNIE (1-800-232-6643).

Have guide questions? Get answers to all your policy questions, straight from the source. [Ask Poli](#).

