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New Fannie Mae and Freddie Mac Condo Rules Put Gulf Shores and Orange Beach Associations on the Clock

Fairhope Mortgage urges coastal condominium associations to strengthen reserves, document repairs and review insurance before a new 15% reserve standard takes effect in 2027

FAIRHOPE, AL, September 14, 2026 — Recent changes to Fannie Mae and Freddie Mac condominium guidelines could affect whether future buyers can obtain conventional financing for units in Gulf Shores and Orange Beach. Fairhope Mortgage is encouraging condominium boards, association managers and unit owners to begin preparing now rather than waiting until a unit is under contract.

The changes require more detailed reviews of established condominium projects, impose stronger standards when reserve studies are used and increase the standard replacement-reserve allocation from 10% to 15% of annual budgeted assessment income for applications received on or after January 4, 2027.

“Condo financing is no longer determined solely by whether the individual buyer has good credit, sufficient income and a down payment,” said Tom Kalagher, owner and branch manager of Fairhope Mortgage. “The financial condition, insurance coverage, physical condition and documentation of the entire condominium project can determine whether that buyer has access to conventional financing.”

Streamlined reviews have been retired

Effective for applications received on or after August 3, 2026, Fannie Mae retired its Limited Review process and Freddie Mac retired its comparable Streamlined Review process.

Many established condominium projects that previously qualified for a narrower review must now undergo a more comprehensive project review unless a specific project-review waiver applies.

During a full project review, lenders may examine the association’s:

- Annual operating budget and reserve contributions
- Reserve balances and reserve study
- Master property and flood insurance
- Deductibles and coverage limitations

- Outstanding or planned special assessments
- Structural and mechanical inspection reports
- Deferred maintenance and critical repairs
- Owner assessment delinquencies
- Pending litigation
- Meeting minutes and other association records

If an association cannot provide sufficient information for the lender to determine that the project meets agency requirements, financing for a unit may be delayed or denied even when the buyer is otherwise qualified.

Replacement-reserve requirement increases to 15%

For full project reviews involving applications received on or after January 4, 2027, both agencies will increase the standard replacement-reserve allocation from 10% to at least 15% of the association's annual budgeted assessment income.

For example, if an association expects to collect $1 million in regular annual assessments, the standard calculation would call for at least $150,000 to be allocated toward replacement reserves.

Associations should not assume that an existing reserve study automatically solves a budget shortfall. Under the updated rules, when a reserve study is used to support an alternative reserve allocation, the association's budget must include the study's highest recommended reserve contribution. A "baseline funding" approach that permits reserves to approach zero cannot be used to avoid the standard reserve requirement.

A qualifying reserve study generally must have been completed or updated within three years of the lender's project approval and prepared by an independent professional with appropriate reserve-study expertise.

Why this is especially important on Alabama's Gulf Coast

Coastal condominium buildings face expenses that may be less common or less severe in inland communities, including salt-air corrosion, wind and water exposure, roof and exterior-envelope maintenance, elevators, balconies, parking structures, pools and rising insurance costs.

When associations delay maintenance or keep regular dues artificially low, the result may be insufficient reserves and large special assessments. That can affect current owners and make financing more difficult for prospective buyers.

Fannie Mae has identified insufficient master property insurance and unresolved critical-repair issues among the leading reasons condominium projects receive an ineligible status in its Condo Project Manager system.

“For Gulf Shores and Orange Beach owners, financeability directly affects the future buyer pool,” Kalagher said. “An owner may have maintained an individual unit beautifully, but buyers can still face financing problems if the association’s budget, insurance, repairs or documentation do not meet project-level requirements.”

Investor restrictions eased—but projects still must qualify

The agencies also removed certain restrictions involving investor concentration or owner occupancy in established condominium projects. That may benefit some Gulf Shores and Orange Beach communities with large numbers of second homes and investment properties.

However, removal of those percentage restrictions does not automatically make every vacation-oriented project eligible.

Projects operated primarily like hotels or resorts can remain ineligible. Potential concerns include mandatory rental pooling, restrictions on an owner’s ability to occupy a unit, hotel-style registration or cleaning services, centralized control of rental inventory and other characteristics associated with transient lodging.

Short-term rental activity should therefore be evaluated together with the project’s governing documents, management structure and actual operations.

Steps condominium associations should take now

Fairhope Mortgage recommends that condominium boards and management companies consider the following actions:

1. **Review the proposed 2027 budget.** Determine whether at least 15% of annual budgeted assessment income will be allocated to replacement reserves.
2. **Update the reserve study.** If the current study is approaching three years old, engage a qualified independent reserve professional and make sure all major common components are evaluated.
3. **Fund the study’s recommendations.** A reserve study is most useful for financing purposes when the association’s adopted budget actually provides the recommended funding.
4. **Address critical repairs promptly.** Resolve structural, mechanical, safety and habitability issues and retain documentation showing that required work and inspections have been completed.
5. **Document every special assessment.** Maintain records showing its purpose, total amount, payment schedule, current collection status, remaining work and whether it relates to critical repairs.
6. **Conduct an insurance review.** Work with a qualified coastal-insurance professional to document the master policy’s replacement-cost coverage, covered perils, wind and flood protection, deductibles and any per-unit deductible.

7. **Clearly communicate HO-6 responsibilities.** When a master policy does not cover the entire unit interior or contains a per-unit deductible, buyers may need individual coverage sufficient to address those exposures.
8. **Monitor owner delinquencies.** Excessive delinquency in regular assessments or special assessments may create an additional project-eligibility problem.
9. **Maintain a lender-ready document package.** Keep current budgets, financial statements, insurance documents, reserve studies, inspection reports, meeting minutes, repair records and assessment information in one accessible file.
10. **Review rental and management agreements.** Associations in vacation markets should determine whether any agreement restricts owner occupancy or causes the project to operate more like a hotel than a residential condominium.

What current condo owners should ask

Owners who may sell or refinance within the next several years should ask their association:

- What percentage of assessment income is being contributed to reserves?
- When was the reserve study last completed or updated?
- Is the budget funding the study's recommended contribution?
- Are any structural or mechanical repairs outstanding?
- Are any special assessments planned or currently being collected?
- Does the master insurance policy meet current lending requirements?
- Is there a per-unit insurance deductible?
- How quickly can management provide a lender's condominium questionnaire and supporting documents?

"Associations should view financing readiness as part of protecting every owner's ability to sell," Kalagher said. "The strongest approach is to identify a problem while there is still time to correct it—not after a buyer has made an offer and scheduled a closing."

Condominium buyers, owners, board members and real estate professionals may contact Fairhope Mortgage for help understanding how project eligibility can affect a proposed purchase or refinance. Final eligibility depends on the individual loan, property, project documentation and applicable loan-program requirements.

About Fairhope Mortgage

Fairhope Mortgage serves homebuyers, homeowners, veterans and real estate investors throughout coastal Alabama and the Gulf Coast. Led by owner and branch manager Tom Kalagher, the company provides conventional, FHA, VA, USDA, investment-property and other residential mortgage options, with an emphasis on local service and clear communication.

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Sources for Editors

- Fannie Mae Lender Letter LL-2026-03: Project Standards and Property Insurance Requirements
- Freddie Mac Bulletin 2026-C
- Fannie Mae Project Standards Requirements FAQs
- Fannie Mae Condo Status Finder