

Important Changes to the Condominium Project Questionnaire

As part of the condo buyer's mortgage application process, mortgage companies require questionnaires be completed by an association representative to obtain general information about the association. A condo questionnaire is a form sent to a condo development by a lender when a potential borrower applies for a mortgage. The questionnaire allows the lender to determine if the condo meets its requirements for a loan. If the requirements are met, the lender can in turn consider providing a loan to the condo buyer.

Lenders are by nature risk averse and see condo sales as riskier than single family homes because ownership and decision making are shared between property owners and the condo or homeowner's association. A condo questionnaire provides evidence that the condominium development, not just the unit being purchased, is in compliance with the lender's underwriting requirements.

The vast majority of these questionnaires ask questions about the number of units in the association, how many units are primary residences, second homes and investment units; whether the association is a conversion of an existing building, when the homeowners took control of the association, if any owners are significantly delinquent in paying HOA fees and the amount of cash the association has on hand.

In recent months an addendum has been added to these questionnaires. This addendum includes additional questions revolving around the structural soundness, structural integrity and age of essential building systems and components.

Specific addendum questions ask the date of the most recent building inspection (by a licensed architect, licensed engineer or building inspector), if any concerns were identified, if the association is aware of any deficiencies related to safety, soundness, or structural integrity. The questionnaire requires the association to disclose repair/replacement plans if there are any findings related to the building safety, structural integrity, or habitability.

Additional addendum questions seek information regarding a schedule for deferred maintenance work and deferred maintenance funding (separate from reserve funding), if there is a recent (within 3 years) reserve study, the amount of cash in the reserve fund, if there are any special assessments planned and purpose of such assessments.

These additional questions have been a discretionary part of the process for several years but expect that this addendum will become a mandatory part of the routine disclosures required going forward in reaction to the tragic condo collapse in Florida during summer 2021.

At an upcoming work session meeting, Board members should review the addendum and decide how the association will respond. This increased scrutiny by mortgage companies and subsequent responses to some of these questions may potentially lead to rejection of some mortgage applications submitted for your respective associations.

Associations that follow best practices already commission periodic building inspections, a reserve study and deferred maintenance schedule. Annual condo association budgeting should include contributions to both the reserve for replacement *and* deferred maintenance funds.

A reserve study identifies assets for which the association has replacement responsibility and typically takes a 30-year view of funding and replacement for component assets. Associations should have a reserve study performed or updated on a 5-year cycle.

Deferred maintenance includes projects that need to be performed on a periodic basis (less frequently than annually) such as exterior waterproofing and sealant work. Many associations do not have schedules or annual contributions for deferred maintenance. Deferred maintenance planning will be a topic for an upcoming column.

Buyers and their mortgage companies are starting to ask association boards for their documented plans. The important point to keep in mind – association board members have a responsibility to preserve, protect and maintain association assets – not just replacing those that reach the end of their service life but also to properly plan for maintenance to association assets and essential building components to maximize their useful service lives.

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