

Bill 37 (2021), CD1 Testimony

From: CLK Council Info
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Subject: Public Infrastructure and Technology Testimony

Written Testimony

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Meeting Date	03-02-1922
Council/PH Committee	Public Infrastructure and Technology
Agenda Item	Bill 37
Your position on the matter	Support
Representing	Organization
Organization	Contessa AOA
Written Testimony	
Testimony Attachment	
Accept Terms and Agreement 1	

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February 2, 2022

Hon. Carol Fukunaga, Chair
Committee on Public Infrastructure, Technology & Sustainability

Re: Testimony in Support of Bill 37, CD 2 Relating to Fire Safety and Resolution 22-40
Wednesday, March 2, 2022 @1 p.m.

Chair Fukunaga and members of the Committee:

I am Jane Sugimura, President of the Hawaii Council of Association of Community Associations ("HCCA") and HCCA supports passage of Bill 37, CD2 and Resolution 22-40.

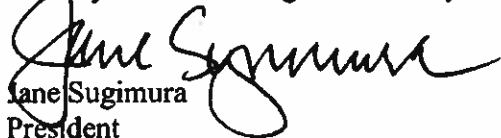
Bill 37, CD2 would amend the Fire Safety Ordinance as follows:

1. Moves the deadline for residential properties to submit their life safety evaluations to HFD from May 3, 2022 to December 31, 2022.
2. Provides a 5-year extension on all other deadlines established in Ordinance 19-4.
3. Modifies the information that HFD is required to submit in its 3-month status update reports to the City Council. These changes will help facilitate the Council in working with HFD and condo/co-op associations to improve the likelihood of properties receiving 'acceptable' scores on their LSE's.
4. Eliminates the terms "passing" or "passing status" to "receiving an acceptable score" on the building fire and life safety evaluations.

These amendments are necessary because the reports/updates issued by the Honolulu Fire Department indicate that there are approximately 200 high-rise buildings in Honolulu that have not received passing scores on their Life Safety Evaluations ("LSE") and there are about 75-80 buildings that have not yet completed their LSE's and the deadline for completion is 5/3/2022.

Compliance with the Fire Safety Ordinance has been challenging for high-rise buildings due to (i) cash-flow issues caused during the COVID-19 pandemic due to business closures and lost jobs that have affected cash-flow to associations, (ii) ongoing plumbing and structural repairs that are already draining resources for aging buildings, (iii) increasing insurance premiums of 30% for buildings that do not have fire sprinklers; (iv) supply-chain problems and labor shortages affecting contractors and (v) stricter lending policies that make buildings with unresolved deferred maintenance ineligible for loan approval for prospective buyers (see Fannie Mae Lender Letter, copy enclosed.)

Thank you for allowing me to testify on these measures.


Jane Sugimura
President

Lender Letter (LL-2021-14)

Oct. 13, 2021

To: All Fannie Mae Single-Family Sellers Temporary Requirements for Condo and Co-op Projects

Our condo and co-op project standards policies are designed to support the ongoing viability of condo and co-op projects. In the wake of the tragic collapse of the Champlain South Tower in Surfside, Florida, residential buildings with aging infrastructure and significant deferred maintenance are a growing concern across the nation. This concern is expected to increase over the next decade as the majority of residential condo and co-op buildings were built more than twenty years ago. Lenders and other industry stakeholders have asked for clear guidance on how to manage emerging risk related to residential projects.

In response to the concerns about projects with significant deferred maintenance, we are issuing temporary requirements that impact the eligibility of condo and co-op projects containing attached units. These requirements apply to all loans secured by units in projects with five or more attached units, regardless of the type of project review or review waiver.

Effective: Unless otherwise noted below, these requirements are effective for whole loans purchased on or after Jan. 1, 2022 and for loans delivered into MBS pools with issue dates on or after Jan. 1, 2022 and will remain in effect until further notice.

Significant deferred maintenance and unsafe conditions

Loans secured by units in condo and co-op projects with significant deferred maintenance or in projects that have received a directive from a regulatory authority or inspection agency to make repairs due to unsafe conditions are not eligible for purchase. These projects will remain ineligible until the required repairs have been made and documented. Acceptable documentation may include a satisfactory engineering or inspection report, certificate of occupancy, or other substantially similar documentation that shows the repairs have been completed in a manner that resolves the building's safety, soundness, structural integrity, or habitability concerns.

Significant deferred maintenance includes deficiencies that meet one or more of the following criteria:

- full or partial evacuation of the building to complete repairs is required for more than seven days or an unknown period of time;
- the project has deficiencies, defects, substantial damage, or deferred maintenance that
 - is severe enough to affect the safety, soundness, structural integrity, or habitability of the improvements;
 - the improvements need substantial repairs and rehabilitation, including many major components; or
 - impedes the safe and sound functioning of one or more of the building's major structural or mechanical elements, including but not limited to the foundation, roof, load bearing structures, electrical system, HVAC, or plumbing.

Additionally, projects that have failed to obtain an acceptable certificate of occupancy or pass local regulatory inspections or recertifications are not eligible.

These policies do not apply to routine maintenance or repairs that a homeowners' association (HOA) undertakes to maintain or preserve the integrity and condition of its property. Also, if damage or deferred maintenance is isolated to one or a few units and



does not affect the overall safety, soundness, structural integrity, or habitability of the improvements then these project eligibility requirements do not apply. Examples of this scenario include water damage to a unit due to a leaky pipe that is isolated or damage from a small fire impacting the interior of a specific unit. However, if the subject property unit is affected, our standard requirements for property condition apply.

Special assessments

Any current or planned special assessment, even if paid in full for the subject unit, must be reviewed to determine acceptability. The lender must document the loan file with the following:

- the reason for the special assessment;
- the total amount assessed and repayment terms;
- documentation to support no negative impact to the financial stability, viability, condition, and marketability of the project; and
- borrower qualification with any outstanding special assessment payment.

The lender is expected to obtain the financial documents necessary to confirm the association has the ability to fund any repairs. If the special assessment is related to safety, soundness, structural integrity, or habitability, all related repairs must be fully completed or the project is not eligible. Additionally, if the lender or appraiser is unable to determine that there is no adverse impact, the project is ineligible.

Condo Project Manager “Unavailable” status

We are changing the status of projects in Condo Project Manager™ (CPM™) to “Unavailable” when we become aware of projects that do not meet these temporary eligibility requirements or that do not meet our standard *Selling Guide* requirements for project eligibility. Effective immediately, loans secured by units in any project with a CPM status of “Unavailable” are ineligible for purchase, regardless of the project review process used in underwriting the loan. Lenders can check the status of a particular project by accessing CPM. If a lender has documentation to resolve eligibility issues for projects noted as unavailable in CPM, they are encouraged to submit that documentation for consideration using the CPM mailbox: CPM_manage@fanniemae.com

Reserve requirements

We are also suspending the *Selling Guide* flexibility that allows a lender to obtain a reserve study in lieu of the condo project meeting our 10% budget reserve requirement. Reserve studies are an important tool to help HOAs plan for future needs. It is best practice for HOAs to obtain a reserve study, keep it updated, and follow its recommendations for reserves and maintenance schedules. However, projects that budget less than 10% of the HOA’s assessment income may be at increased risk for significant deferred maintenance and special assessments. Lenders may submit exception requests to us through the Project Eligibility Review Service (PERS) process for established projects that do not meet our minimal reserve requirements but that have a reserve study demonstrating sufficient reserves. We will not consider such requests for new projects at this time.

Project eligibility waivers

Effective immediately Project Eligibility Waivers (PEWs) will not be issued for significant deferred maintenance, failure to obtain a certificate of occupancy, failure to complete or pass a regulatory inspection, or projects subject to large special assessments as described above. Additionally, all new requests related to PEWs for project insurance policy deficiencies are suspended.

Best practices and reminders

As a best practice, the lender should review the past six months of a project’s HOA meeting minutes and obtain information about any maintenance or construction that may have significant safety, soundness, structural integrity, or habitability impacts on the unit or the project. References to items such as improvements, renovations, inadequate reserve funding, budget deficits, and



negative cash-flows should be researched to determine if these items are related to deferred maintenance or other conditions that impact the safety, soundness, structural integrity, or habitability

We recommend that lenders review any available inspection, engineering, or other certification reports completed within the past five years to identify deferred maintenance that may need to be addressed. As a reminder, projects engaged in construction defect or other material litigation are ineligible.

We are reminding lenders that their appraisers must document any special assessments or deferred maintenance that may impact the safety, soundness, structural integrity, or habitability of the unit or the overall project and its amenities. We have issued separate guidance about this to appraisers; lenders are encouraged to review the information on our [website](#).

Regardless of review type, projects must comply with all policies described in the *Selling Guide*, B4-2.1-03, Ineligible Projects, including when completing a Limited Review or an appraisal waiver is used. Using an appraisal waiver does not exempt the lender from completing the required project review. Additionally, relying solely on the appraisal to complete a project review is not recommended. The appraisal often does not have sufficient information for a lender to determine whether the project meets our eligibility requirements.

Finally, homeowners impacted by disasters, such as the recent condo collapse or other similar circumstances, may be eligible to use disaster-related servicing flexibilities as outlined in the *Selling Guide*, B2-3-05, [Properties Affected by a Disaster](#) and *Servicing Guide*, D1-3-01, [Evaluating the Impact of a Disaster Event and Assisting a Borrower](#). For additional guidance, review the [Disaster Relief FAQs](#).

Additional Resources

Refer to the following resources for more information about our project policies, the PERS process, and CPM:

- [Protecting Condos as a Sustainable Housing Option](#)
- [Condo, Co-Op, and PUD Eligibility](#)
- [PERS Getting Started Guide](#) and [PERS Overview](#)
- [Condo Project Manager](#)
- [Appraising and Underwriting Condo and Co-op Projects](#)

Lenders may also contact their Fannie Mae Account Team if they have questions about this Lender Letter.
Have guide questions? Get answers to all your policy questions, straight from the source. [Ask Poli](#).

Let your voice be heard! We want your feedback on our policy communications to help us improve the clarity of new and updated policy and understand any implications to borrowers. Click below to take a short survey regarding this Lender Letter.



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