

Announcement # 25-20

Date: February 20, 2025

Fannie Mae Updated Leasehold Estate Requirements

In Selling Guide Announcement 2024-07, Fannie Mae announced revisions to their eligibility requirements for properties subject to leasehold estates. These changes provide clarifications and update lease requirements and address scenarios related to leasehold estates in projects. These changes are effective for loans with applications dated on or after 3/1/2025 and include the following:

- Addition of a definitive list of eligible property types, definitions, and exceptions to the leasehold topic.
- Clarification of multiple provisions for leaseholds related to first lien enforceability, appraisal, and title insurance.
- Clarification that, for manufactured homes located in a condo or PUD project, the HOA must be the lessee, without any further subleases.
- Updates to multiple lease requirements, including provisions for notices of default and options to cure, merger of title, assignments, and protection of the lender's financial interest in the event of condemnation.
- Clarification of when lease requirements differ based on whether the borrower or the HOA is the lessee.
- For loans with new leases entered into on or after 9/1/2025, the fee estate must not be subject to any prior secured loans or liens, unless the secured party or lienholder agrees to recognize and not disturb the lease if it becomes the owner of the fee estate.

Appraisal Requirements:

For properties subject to a leasehold estate, appraisers must:

- Develop a thorough, clear, and detailed narrative that identifies the terms, restrictions and conditions regarding lease agreements or ground leases and include this information as an addendum to the appraisal report.
- Discuss what effect, if any, the terms, restrictions, and conditions of the lease agreement or ground lease have on the value and marketability of the subject property.
- Use a sufficient number of closed comparable sales with similar leasehold interests, if available, in the analysis of the market value of the leasehold estate for the subject property.
 - If not enough comparable sales with the same lease terms and restrictions are available, appraisers may use sales of similar properties with different lease terms or sales of similar properties that were sold as fee simple states if necessary.
 - The appraiser must explain why the use of these sales is appropriate and must make appropriate adjustments in the Sales Comparison Approach adjustment grid to reflect the market reaction to the different lease terms or property rights appraised.

Please refer to the updated Fannie Mae Selling Guide for complete details.

These changes do not apply to the Fannie Mae Single Close or AUS Jumbo products, as leaseholds are ineligible for both products.

Please contact your Sales Representative with any questions.