New Radon Testing Requirements for Multifamily Properties Seeking Fannie Mae and Freddie Mac-Backed Financing

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The Federal Housing Finance Agency (FHFA) recently announced enhanced radon testing requirements for multifamily properties seeking financing backed by Fannie Mae or Freddie Mac (each an "Agency"; collectively, the "Agencies") due to growing concerns over the risks of human exposure to radon gas. Radon is an odorless, colorless, radioactive gas resulting from the natural decay of uranium and radium found in nearly all rocks and soils, and according to the Centers for Disease Control and Prevention, it is the leading cause of lung cancer for non-smokers. The new radon testing standards will apply to any Agency-backed loan application received after June 30, 2023, unless subject to an exemption or deferral.

Enhanced Standards

The Agencies have previously required that radon testing be incorporated in the environmental due diligence package, which also includes a Phase I Environmental Site Assessment, for each mortgage an Agency will acquire that is secured by a multifamily property. Under prior testing standards, only 10% of ground-contact residential units needed to undergo radon testing. Under the new standards, at least 25% of ground-contact residential units must be tested for radon. An Environmental Professional (an "EP"), as defined in 40 CFR § 312.10, will still be responsible for overseeing the testing, though the EP may direct a property representative to deploy or retrieve radon testing canisters as appropriate.

Additional requirements will be triggered if at least one unit in a building has radon concentrations of 4.0 pCi/L or above. The EP must either recommend the installation of a radon mitigation system in any building with elevated radon levels, or, alternatively, the EP must recommend a second round of short- or long-term

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testing on 25% of ground-contact units. Under this scenario, units with elevated radon levels must be retested, and the EP can then choose additional units to meet the 25% threshold. Mitigation will be required if, following the second round of testing, the average of the two short-term tests or the result of the long-term test are 4.0 pCi/L or above.

The new standards continue to require that lenders or property owners seeking Agency-backed financing comply with all state and local radon testing requirements in addition to the more stringent Agency requirements.

Exemptions and Deferrals

Not all Agency-backed financing applications will be subject to the new testing standards. For example, manufactured housing communities and properties without ground-contact residential units—which include buildings with ground-floor retail and amenities or with residential units above parking garages or ventilated crawl spaces—are not required to conduct radon testing for financing purposes. Refinances of properties with Agency debt that have already undergone radon testing (and mitigation if applicable) that comply with the new standards do not need to conduct further testing. New construction built with radon-resistant measures and properties with property-wide radon mitigation systems and O&M plans in place do not need to conduct radon testing. The testing requirements may be waived if the EP determines testing (or mitigation) is not necessary and can document the reasons supporting this conclusion. In addition, properties seeking financing through the Agencies' small loan programs are deferred from testing until 2024.

More Changes to Come?

There is a heightened awareness across the public and private affordable housing sector regarding the risks associated with exposure to radon gas. This is reflected not only by the Agencies' new standards, but also by the U.S. Department of Housing and Urban Development's (HUD) decision in late 2020 to revise its radon testing protocols to require testing of 100% of ground-floor units

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and 10% of upper-floor units, as well as HUD's decision to create its Radon Testing Mitigation and Demonstration for Public Housing grant program. Importantly, FHFA and the Agencies intend to reassess radon testing standards in 2024 once the radon testing data generated this year at Agency-backed properties has been collected and reviewed.

More changes may be on the horizon as robust testing requirements for radon, and perhaps other emerging contaminants, continue to become the norm for housing lenders.

Frost Brown Todd counsels investors, developers, lenders, and other key stakeholders on multifamily housing transactions across the country. We stay at the forefront of all proposed regulatory changes affecting the industry, and we are ready to assist clients with navigating the continually changing regulatory environment.

For more information, please contact the authors of this article or any attorney in Frost Brown Todd's Environmental practice group and Multifamily Housing industry team.

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