

**Agency Guides/Fannie Mae Multifamily/Delegated Underwriting and Servicing Guide/Part III: New Underwriting (04/07/09)/Part IIIA: Base Underwriting Requirements (04/07/09)/Chapter 3: The Property (04/29/11)/Section 322: Property and Liability Insurance (04/29/11)/Section 322.01: General Insurance Requirements – Applies to All Policies (04/29/11)/Section 322.01: General Insurance Requirements – Applies to All Policies (04/29/11)**

### **Section 322.01: General Insurance Requirements – Applies to All Policies (04/29/11)**

Fannie Mae requires each Property to be covered by property and Liability Insurance for the life of the Mortgage Loan. Unless otherwise stated, all insurance forms and policies refer to Insurance Services Office ("ISO") forms and policies. The named insured in each policy must be the Borrower. All policies must:

- be written on a per occurrence basis except for earthquake and professional liability coverage, which may be written on a per claims/claims made basis;
- have a cancellation provision requiring the carrier to notify the Lender at least 30 days in advance of any policy reduction or cancellation for any reason except non-payment of premium;
- include a cancellation provision that provides for at least a 10-day written notification for non-payment of premium;
- name Fannie Mae as an additional insured except for professional liability insurance policies; and
- contain a mortgagee clause and loss payable clause acceptable to Fannie Mae.

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#### **A.: Blanket Policies (04/29/11)**

Use of a blanket or package policy (or policies) of insurance covering the Property and other properties and liabilities of the Borrower is acceptable, provided that:

- the policy provides the same or better insurance coverage as a single property insurance policy;
- the property is listed and identifiable in the policy or associated schedules; and
- the policy complies with all other applicable requirements contained in this Section.

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#### **B.: Property/Casualty Insurance Carriers (04/29/11)**

A property/casualty insurance carrier must meet the following rating requirements even if it is rated by one or more rating agencies or conditions:

- A.M. Best Company general policyholder's rating of "A-" or better and a financial performance index rating of VI or better in Best's Insurance Reports or Best's Key Rating Guide.
- Various state wind pools (if it is the only coverage that can be obtained) or flood companies approved under the National Flood Insurance Program (NFIP).

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### **C.: Term (04/29/11)**

Each policy must either:

- have a term of at least one year at the time of closing the Mortgage Loan; or
- have a term with less than 12 months remaining at the time of closing the Mortgage Loan, so long as the policy contains the required coverages, is being added to an existing policy, and the Lender collects funds at the closing of the Mortgage Loan and during the months following closing of the Mortgage Loan to ensure that adequate funds will be on deposit with the Lender to pay the next premium by its scheduled due date.

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### **D.: Financing the Premium (04/29/11)**

All premiums for existing or new policies must be paid in full at Mortgage Loan closing and cannot be financed. The Borrower must not finance premiums for renewals of policies.

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### **E.: Evidence of Insurance (04/29/11)**

The Borrower must provide to the Lender evidence of insurance for the Property on or before the closing of the Mortgage Loan or the policy's renewal date. Evidence of insurance coverages for the Property must be provided as follows:

- Temporary Evidence – Either (i) an ACORD 28 (either the 2003 or 2006 version is acceptable), combined with ACORD 25S, or (ii) ACORD 75S, are acceptable forms of temporary evidence of insurance. If an ACORD certificate is not available, Fannie Mae will accept a letter signed by the Borrower and the licensed insurance broker certifying that the coverages, deductibles and exclusions meet Fannie Mae's requirements. Temporary coverage, such as an insurance binder, has an expiration date that must

be monitored by the Lender and renewed on or before its expiration date. The Lender will be liable to Fannie Mae if a binder expires, the Borrower has not provided sufficient evidence of permanent coverage, and an uninsured loss occurs.

- **Permanent Evidence** – The originals or certified copies of current insurance policies must be received, reviewed and placed in the Lender's Servicing File within 90 days after the delivery of the Mortgage Loan or the date of the insurance policy renewal. Except for a National Flood Insurance Program (NFIP) policy, only the complete insurance policy is sufficient evidence of coverage. Insurance policy declarations pages, single policy endorsements, insurance binders and certificates of insurance are not an acceptable form of permanent insurance coverage. The Policy Declaration page of a NFIP policy is acceptable evidence of flood insurance coverage.

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### **F.: Insurance Data Requirements (04/29/11)**

The Lender must retain information of the insurance coverages on each Mortgage Loan for transmittal to Fannie Mae upon request. Information of the following types of insurance is required for each Mortgage Loan:

- Special Form (Formerly referred to as "All-Risk")
- Business Income
- Earthquake
- Flood
- Ordinance & Law
- Terrorism
- Windstorm
- General Liability
- Umbrella/Excess Liability
- Professional Liability

For each type of insurance listed above, the Lender is required to retain the following data, at a minimum:

- Name of Insurer
- Coverage Amount
- Deductible
- Expiration Date

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## G.: Insurance Waivers (04/29/11)

Insurance waivers granted by Fannie Mae shall be for the entire Mortgage Loan term unless otherwise specified by Fannie Mae at the time of approval. Any request for waiver of insurance requirements after delivery of the Mortgage Loan to Fannie Mae must be submitted by completing and delivering the Multifamily Waiver Review Form – Insurance (Form 4638) electronically to Drawer\_Insurance@FannieMae.com.

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## Section 322.02: Property Damage (04/29/11)

Fannie Mae requires that each Property be covered by property insurance for the life of the Mortgage Loan. This section covers the requirements that policies for property insurance must satisfy.

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## A.: Property Damage (“Special Form”) Insurance (04/29/11)

What's Required	“Special Form” (formerly referred to as “All Risk”) Property Insurance Policy .
When Does it Apply?	All property types
Amount of Coverage	<ul style="list-style-type: none"> <li>• 90 % of Estimated Replacement Cost</li> <li>• Coinsurance: Allowed up to 90%, provided Replacement Cost on the policy is at least 90% of the Estimated Replacement Cost.</li> </ul>
Maximum Deductible	<ul style="list-style-type: none"> <li>• \$25,000 per occurrence for a portfolio or single asset Mortgage Loan with a Property having less than or equal to \$100 million in total replacement values, as listed in the policy</li> <li>• \$100,000 per occurrence for portfolios or single asset Mortgage Loans with a Property having greater than or equal to \$100 million in total replacement values, as listed in the policy</li> <li>• Blanket Policy – up to 1% of the total replacement values as listed in the policy, but no more than \$250,000</li> </ul>

The following exclusions from “Special Form” insurance policies are acceptable:

- War or Military Action
- Nuclear Hazard

- Volcanic eruptions
- Fraudulent or dishonest acts committed by the insured
- Dispersal, release or escape of contaminants, or pollution (biological and chemical agents)

Windstorm, flood and terrorism exclusions also are acceptable, provided a separate policy or coverage is obtained for these exclusions, as specified elsewhere in this Section.

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### **B.: Ordinance and Law Coverage (04/29/11)**

What's Required	Ordinance and Law Coverage
When Does it Apply?	Properties that contain any type of non-conformance under current building, zoning, or land use laws or ordinances.
Amount of Coverage	<ul style="list-style-type: none"> <li>• Coverage A - Loss of Undamaged Portion of the Property</li> <li>• Equal to 100% of the full replacement cost of the Property less the damage threshold of the local building ordinance. If threshold is not available, 100% of the full replacement cost of the Property.</li> <li>• Coverage B - Demolition Cost</li> <li>• Minimum 10% of the full replacement cost of the Property</li> <li>• Coverage C - Increased Cost of Construction</li> <li>• Minimum 10% of the full replacement cost of the Property</li> </ul>

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### **C.: Boiler and Machinery/Equipment Breakdown Insurance (04/29/11)**

What's Required	Coverage from loss arising from the operation of pressure, mechanical, and electrical equipment.
When Does it Apply?	Properties where any centralized HVAC, boiler, water heater or other type of pressure-fired vessel is in operation and regulated by the state where the Property is located.
Amount of Coverage	At least 90% replacement cost of the building(s) that house the equipment.

Maximum Deductible	No more than the deductibles on the property insurance policy.
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### Section 322.03: Liability Insurance (04/29/11)

Fannie Mae requires that each Property and Borrower be covered by Liability Insurance for the life of the Mortgage Loan. This section covers the guidelines and requirements that policies for Liability Insurance must meet.

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#### A.: Commercial General Liability Insurance (04/29/11)

What's Required	Commercial General Liability Insurance for bodily injury, property damage and personal injury
When Does it Apply?	All Property types
	<ol style="list-style-type: none"> <li>1. \$1 million per occurrence/\$2 million minimum general aggregate limit <u>plus</u></li> <li>2. Minimum Umbrella Liability Insurance (above the primary): <ul style="list-style-type: none"> <li>• Up through 3 stories \$1 million</li> <li>• 4 –10 stories \$5 million</li> <li>• 11 - 20 stories \$10 million</li> <li>• Greater than 20 stories \$25 million</li> </ul> </li> </ol>
Amount of Coverage	<p>The minimum required coverage limit may be satisfied by adding any combination of primary and umbrella/excess per occurrence and aggregate limits so that the sum of both equals the sum of the limits required in 1. plus 2. above</p> <p>Use of Blanket Policies must comply with the requirements of this Chapter.</p> <p>General Liability:</p> <ul style="list-style-type: none"> <li>• \$25,000 deductible/SIR for portfolio and/or single asset Mortgage Loans with Properties less than or equal to \$100</li> </ul>

	million in total replacement values, as listed in the Property policy
Maximum Deductible	<ul style="list-style-type: none"> <li>• \$100,000 deductible/SIR for portfolios and/or single asset Mortgage Loans with Properties greater than or equal to \$100 million in total replacement values, as listed in the Property policy</li> <li>• Blanket Policy – Maximum \$250,000 deductible/SIR</li> </ul>
	Excess/Umbrella Liability: \$10,000 deductible/self-insured retention

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## **B.: Professional Liability Insurance (04/29/11)**

What's Required	Professional Liability Insurance covering professional errors and omissions, medical malpractice and all types of abuse, professional liability exposures and risks for Assisted Living and/or other Seniors Housing where some level of healthcare is provided. Fannie Mae must not be an additional insured on Professional Liability Insurance
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When Does it Apply?	Seniors properties with Assisted Living or some level of healthcare
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	1. \$1 million per occurrence/\$2 million minimum general aggregate limit <u>plus</u>
	2. Minimum Umbrella Liability Insurance (above the primary):
Amount of Coverage	<ul style="list-style-type: none"> <li>• Up to 100 licensed beds                      \$1 million</li> <li>• 101 to 500 licensed beds                      \$5 million</li> <li>• 501 to 1000 licensed beds                      \$10 million</li> <li>• Over 1000 licensed beds                      \$25 million</li> </ul>

The minimum required coverage limit may be satisfied by adding any combination of primary and umbrella/excess per occurrence and aggregate limits so that the sum of both equals the sum of the limits required in 1. plus 2. above.

Use of Blanket Policies must comply with the requirements of this Chapter.

General Liability:

- \$25,000 deductible/SIR for portfolio and/or single asset

Maximum Deductible	<p>Mortgage Loans with Properties less than or equal to \$100 million in total replacement values, as listed in the Property policy</p> <ul style="list-style-type: none"> <li>• \$100,000 deductible/SIR for portfolios and/or single asset Mortgage Loans with Properties greater than or equal to \$100 million in total replacement values, as listed in the Property policy</li> <li>• Blanket Policy – Maximum \$250,000 deductible/SIR</li> </ul> <p>Excess/Umbrella Liability: \$10,000 deductible/self-insured retention for Excess/Umbrella Liability</p>
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### **C.: Directors' and Officers' Liability Insurance (04/29/11)**

What's Required	Directors' and Officers' Liability Insurance
When Does it Apply?	Cooperative Corporations Only
Amount of Coverage	Minimum \$1 million per occurrence
Maximum Deductible	\$25,000

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### **D.: Commercial Auto Liability Insurance (04/29/11)**

What's Required	Commercial Auto Liability Insurance that covers owned, non-owned, hired and leased vehicles (whichever shall apply), including personal injury protection and uninsured motorist liability
When Does it Apply?	If the Property uses cars, vans or trucks for business purposes, Commercial Auto Liability Insurance must cover those vehicles
Amount of Coverage	\$1 million per occurrence

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### Section 322.04: Additional Insurance Coverages (04/29/11)

The following sections specify additional insurance coverages required by Fannie Mae for each Property.

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#### A.: Business Income/Rent Loss Coverage (04/29/11)

What's Required	<ol style="list-style-type: none"> <li>1. Business Income / Rent Loss Coverage</li> <li>2. 90-day Extended Period of Indemnity (for Mortgage Loans of \$25 million or more) <ul style="list-style-type: none"> <li>Provides an additional 90 days of business income or rent loss coverage if, after the damaged Property is ready for occupancy and is occupied, the occupancy level of the Property is lower than it was immediately before the Property was damaged.</li> </ul> </li> <li>3. Business Income / Rent Loss coverage is required for all property insurance coverage including windstorm, flood, earthquake, and terrorism even if written on a stand-alone basis. See <a href="#">Section 322.05.A.</a>, Windstorm Coverage, for additional information regarding the windstorm business income/rent loss requirements.</li> </ol>
When Does it Apply?	All property types
Amount of Coverage	<ul style="list-style-type: none"> <li>• Actual loss sustained or minimum 10 months' gross income / rents.</li> <li>• Extended Period of Indemnity - 90 days' loss of income / rents (for Mortgage Loans of \$25 million or more).</li> </ul>
Maximum Deductible	Two weeks per occurrence

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#### B.: Builder's Risk Insurance (04/29/11)

What's Required	Builder's Risk Insurance
When Does it Apply?	Required for all Property types during reconstruction after an insured loss.
Amount of Coverage	100% of the completed value, on a non-reporting basis.
Maximum Deductible	<ul style="list-style-type: none"> <li>• \$25,000 per occurrence for portfolio and/or single asset Mortgage Loans with Properties less than or equal to \$100 million in total replacement values, as listed in the policy.</li> <li>• \$100,000 per occurrence for portfolios and/or single asset Mortgage Loans with Properties greater than or equal to \$100 million in total replacement values, as listed in the policy.</li> <li>• Blanket Policy – up to 1% of the total replacement values as listed in the policy, but no more than \$250,000.</li> </ul>

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#### **C.: Workers' Compensation (04/29/11)**

What's Required	Statutory Workers' Compensation and Employer's Liability Insurance
When Does it Apply?	Where employees of the Borrower are required to be covered by workers' compensation laws of the state where the Property is located.
Amount of Coverage	<ul style="list-style-type: none"> <li>• Employer's Liability with a limit of \$1 million <u>and</u></li> <li>• Statutory Limits for compensation</li> </ul>

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#### **D.: Fidelity Bond/Crime Insurance (04/29/11)**

What's Required	Fidelity Bond/Crime Insurance must be obtained and maintained throughout the term of the Mortgage Loan. This insurance reimburses the insured for losses resulting from dishonest acts of any employee, officer or board member.
When Does it Apply?	Cooperative Corporations Only
Amount of Coverage	3 Months' Income of the Cooperative Corporation

Maximum Deductible	\$25,000
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### E.: Sinkhole/Mine Subsidence Insurance (04/29/11)

What's Required	Sinkhole/Mine Subsidence Insurance
When Does it Apply?	Required for Properties in areas prone to these geological phenomena.
Amount of Coverage	100% replacement cost.
Maximum Deductible	<ul style="list-style-type: none"> <li>• \$25,000 per occurrence for portfolio and/or single asset Mortgage Loans with Properties less than or equal to \$100 million in total replacement values, as listed in the policy.</li> <li>• \$100,000 per occurrence for portfolios and/or single asset Mortgage Loans with Properties greater than or equal to \$100 million in total replacement values, as listed in the policy.</li> <li>• Blanket Policy – up to 1% of the total replacement values as listed in the policy, but no more than \$250,000.</li> </ul>

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### A.: Windstorm Coverage (04/29/11)

What's Required	<p>If the "Special Form" property damage insurance excludes any type of wind-related event, a separate windstorm insurance policy must be obtained.</p> <p>Coverage obtained through state insurance plans or other state-managed windstorm and beach erosion insurance pools is acceptable if that is the only windstorm coverage available in an insurance market.</p> <p>Business income/rent loss coverage for a minimum of 12 months plus a 90-day extended period of indemnity (as otherwise specified in this Chapter) is required even if a state insurance program is providing the coverage. An Excess or Difference In Conditions policy may provide the coverage.</p>
When Does it Apply?	Required for all Properties

Amount of Coverage	100% of replacement cost or, if replacement cost coverage is not available, the then actual cash value of the Property if it equals or exceeds the current unpaid Mortgage Loan balance.  Business income: Actual loss sustained or minimum 12 months' gross income/rents. Business Income / Rent Loss coverage is required even if written on a stand-alone basis.
Maximum Deductible	10% of the total insured value, as listed on the policy

If windstorm coverage is only available through a state insurance program, that excludes business interruption/rent loss coverage, the Lender must consult with its Fannie Mae Representative before proceeding with the transaction.

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#### **B.: Flood Insurance (04/29/11)**

1. The Lender must determine, for every Mortgage Loan, whether any of the Improvements are located in a Special Flood Hazard Area (SFHA). SFHAs are areas designated by the Federal Emergency Management Agency (FEMA) as Zone A or V.

What's Required?	Flood Insurance
When Does it Apply?	Flood insurance is required for Property Improvements located in SFHA, Zone A or V.  If the improved portions of the Property are not located in an SFHA, then flood insurance is not required, even if the unimproved portions of the Property are in an SFHA.
Amount of Coverage	100% of replacement cost of Improvements located in an SFHA.  Business income/rent loss coverage for a minimum of 12 months plus a 90-day extended period of indemnity (as otherwise specified in this Chapter) for Improvements located in an SFHA. Business Income / Rent Loss coverage is required even if written on a stand-alone basis.  If 100% of the full replacement cost is unavailable or the premium cost is commercially unreasonable, then the maximum amount of insurance available under the National Flood Insurance Program (NFIP) must be obtained. An excess flood or Difference In Conditions (DIC) policy must provide for the difference, if any, between the maximum limit provided by NFIP policies and the full replacement cost and the required Business Income/Rent Loss coverage as noted above.
Maximum Deductible	5% of the Total Insured Value as listed on the policy.  The acceptable deductible for a DIC is the limit of the NFIP policy (ies).

2. Flood insurance must be in the form of the standard policy issued by members of the NFIP. Other policies that meet the NFIP's requirements, such as those issued by licensed property and casualty insurance companies that are authorized to participate in NFIP's "Write Your Own" program, are acceptable. Equivalent flood insurance policies written by qualified carriers are also acceptable.
3. Conditions may change over time and zones may be remapped, resulting in the reclassification of non-flood areas. After a Mortgage Loan is sold to Fannie Mae, the Lender must ensure that flood insurance is obtained if any Property Improvements are later determined to lie within a remapped SFHA.
4. If conditions warrant, Fannie Mae or the Lender may require flood insurance for Property Improvements located outside of an SFHA but within an area designated by FEMA as Zone X, such as a Property that is in an area subject to flooding due to storm water or within close proximity to an SFHA boundary.

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**C.: Flood Insurance Determination (04/29/11)**

1. For every Mortgage Loan, the Lender must determine whether any of the Property Improvements are located in an SFHA and must document each determination on a Standard Flood Hazard Determination form issued by FEMA (FEMA Form 81-93). The Lender must obtain flood-zone determinations from a qualified third-party flood-zone determination firm. The Lender must place a completed copy of the Standard Flood Hazard Determination form in the Lender Servicing File for the Mortgage Loan. Fannie Mae expects the Lender to exercise care and sound judgment when it selects and contracts with a third-party flood-zone determination firm.
2. Because conditions may change over time, the status of a zone may change. As a result, the Lender must obtain from its flood zone determination firm "life-of-loan" monitoring and coverage, which means that the monitoring company will notify the Lender if and when flood insurance is required for a monitored Property. The Lender must ensure that the monitoring company it selects agrees to continue monitoring for all of the covered Properties in the event that the Lender sells or otherwise transfers its servicing rights to another Mortgage Loan servicer.

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**D.: Earthquake Insurance Requirements (04/29/11)**

What's Required?	Earthquake Insurance
When Does it Apply?	A Property located in Seismic Zones 3 or 4 that meet the Property risk factors listed in Section 321 above.
Amount of Coverage	100% of the full replacement cost of the Property Improvements.  Business income/rent loss coverage for a minimum of 12 months plus a 90- day extended period of indemnity (as otherwise specified in this Chapter). Business Income / Rent Loss coverage is required even if written on a stand-alone basis.
Maximum Deductible	10% of the total insured value as listed on the policy.

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**E.: Terrorism Insurance Requirements (04/29/11)**

What's Required?	Terrorism Insurance (if available, TRIA is acceptable)
When Does it Apply?	<ul style="list-style-type: none"> <li>For any Mortgage Loan greater than \$25 million but less than \$50 million: decision to obtain may be waived by Fannie Mae in its sole discretion; any request for a waiver must be submitted through the Deal Management System.</li> <li>For any Mortgage Loan greater than \$50 million: Required.</li> </ul>
Amount of Coverage	<p>100% of the full replacement cost of the Property Improvements.</p> <p>Business income/rent loss coverage for a minimum of 12 months plus a 90- day extended period of indemnity (as otherwise specified in this Chapter). Business Income / Rent Loss coverage is required even if written on a stand-alone basis.</p>
Maximum Deductible	<p>Either:</p> <ul style="list-style-type: none"> <li>20% of the total insured value as listed on the policy for a standalone policy; or</li> <li>Not more than the deductible of property insurance policy.</li> </ul>