



Fannie Mae®

Multifamily Selling and Servicing Guide

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TABLE OF CONTENTS

Part II Section 501.04C Risk Retention Groups and Captive Insurance 3

GLOSSARY 5



501.04C Risk Retention Groups and Captive Insurance

Requirements

Only a Seniors Housing Property may use liability insurance from a Risk Retention Group or a Captive Insurer. Captive Insurance is only acceptable for

- professional liability insurance, and
- general liability insurance when combined with professional liability insurance.

Any Risk Retention Group or Captive Insurer must have a rating of at least

- A- / VI from A.M. Best Company, or
- A from Demotech, Inc., with policyholder surplus of at least \$40 million.

You must get an annual report on the Captive Insurer from an independent firm that is:

- familiar with captive domiciles, operations, and insurance structures;
- experienced analyzing captive actuarial studies and audited financial statements; and
- unrelated to the Captive Insurer, you, the Borrower, Guarantor, or any of its sponsors or Principals.

The firm's report must include:

- an analysis of the Captive Insurer's annual independent actuarial study;
- an actuarial memorandum/reserve analysis provided by the Captive Insurer;
- a review of the annual independent audited financial statements for the Captive Insurer; and
- a conclusion regarding the Captive Insurer's operations and financial viability.

Guidance

Captive Insurance and similar arrangements have lower capitalization requirements than traditional insurance companies, and are usually not rated by a recognized rating agency.

In order to be rated, a Captive Insurer will typically provide the following to a



rating provider:

- detailed updated accrual runs;
- updated loss history (minimum 5 years, brief summary, and detailed list);
- current updated audited financial statements for the past 2 years:
 - for the captive, audited financials typically are on a stand-alone basis (if audited are not available, then unaudited financials are acceptable); and
 - for the parent company's, the financials should be on a consolidated basis;
- financials, audited or unaudited, from the captive and parent company for the most recent quarter;
- description of any changes from previous years with applicable updated resumes of all officers;
- description of any reinsurance and/or fronting company, if applicable;
- description of internal claims management procedures;
- status of market update;
- description of funding sources;
- business plan;
- projected volume over the next year;
- actuarial memorandum/reserve analysis as provided by the Captive Insurer;
- state insurance examination report or, if a report is not available,
 - date of examination,
 - description of any adverse findings, and
 - steps taken to remediate; and
- exposure to the Captive Insurer or Risk Retention Group, based on the UPB of loans made to date.



Glossary

B

Borrower Person who is the obligor per the Note.

Synonyms

- Borrowers
- Borrower's

C

Captive Insurer Insurance company wholly owned and controlled by its insureds, whose primary purpose is to insure the risks of its owners, and its insureds benefit from the captive insurer's underwriting profits.

G

Guarantor Key Principal or other Person executing a

- Payment Guaranty,
- Non-Recourse Guaranty, or
- any other Mortgage Loan guaranty.

Synonyms

- Guarantors

R

Risk Retention Group State-chartered insurance company created by the 1986 federal Liability Risk Retention Act, insuring commercial businesses and government entities against liability risks.

Synonyms

- RRG

S



Seniors Housing
Property

Multifamily residential rental property with any combination of Independent Living, Assisted Living, Alzheimer's/Dementia Care, or Skilled Nursing units.

Synonyms

- Seniors Housing

U

UPB

Unpaid Principal Balance

Synonyms

- UPBs