Fannie Mae®

Multifamily Selling and Servicing Guide

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501.01D Risk Retention Groups and Captive Insurance

☑ Requirements

You must ensure Risk Retention Groups and Captive Insurers are only accepted for:

- the following coverages:
  - professional liability;
  - general liability;
  - excess/umbrella;
  - Property insurance layer, but coverage must not be provided through a layer that constitutes the majority of the coverage; and
  - terrorism, when backed by the Terrorism Risk Insurance Program (TRIA); and
- funding Property and liability deductibles.

You must ensure any Risk Retention Group or Captive Insurer has a rating of at least A- from A.M. Best Company.

For any Risk Retention Group or Captive Insurer that is not satisfactorily rated, before Rate Lock, you must:

- obtain and review the applicable information in the Unrated Risk Retention Group or Captive Insurer table; and
- submit a
  - written summary, and
  - recommendation for approval, explaining
    - any non-compliant requirements,
    - any adverse findings, and
    - your rationale for recommending approval.

Unrated Risk Retention Group or Captive Insurer	
Document/Entity	Description
Certificate of Authority (CA)	State-issued license to an insurance company to conduct business, and includes the • date of authority, • complete Captive Insurer name, and • state of domicile.
State Examination Report	Report covering a specific timeframe that: • reviews the company's: - balance sheet (including assets, liabilities, capital, and surplus); - statement of income; - investments; - premiums; - reinsurance assumed and ceded; - unpaid losses and loss adjustment expense; and - losses and loss adjustment expense incurred; and • ascertains its: - financial condition; - ability to fulfill obligations; and - compliance with applicable state laws and regulations.
Actuarial Report	Report culminating with a statement of actuarial opinion (minimum requirement) after evaluating, opining, and certifying the adequacy of the Captive Insurer's • open and paid losses, • loss adjustment expense reserves, • capital, and • surplus.
Loss History	Frequency and severity of insurance losses covered by the Captive Insurer's policy during a specific timeframe.

Unrated Risk Retention Group or Captive Insurer	
Document/Entity	Description
Reinsurance and/or Fronting Company	Reinsurance is when an insurer transfers all or part of a risk to another insurer to reduce the risk for the first insurance. Fronting company is using a licensed, admitted insurer to issue an insurance policy on behalf of a self-insured organization or Captive Insurer without intending to transfer any of the risk. The risk of loss is retained by the self-insured or Captive Insurer with an indemnity or reinsurance agreement.
Captive Insurer	Captive Insurer is either a: • single parent captive (pure captive) - when an insurance subsidiary insures the loss exposures of its parent company or single entity; or • group captive - a captive owned by several different companies who are normally - from the same industry, and - have similar risks.

Guidance

Captive Insurers (and similar arrangements):

- may have lower capitalization requirements than traditional insurance companies; and
- are not usually rated by a recognized rating agency.

For Captive Insurers, you should:

- confirm they
  - are financially stable, and
  - have adequate funds to cover potential losses; and
- review additional documents as warranted.

Operating Procedures

You must submit all documents for unrated Captive Insurers or Risk Retention Groups:

- through DUS Gateway, for new Mortgage Loan submissions; and
- annually through the MAMP, for Portfolio Mortgage Loans.

Glossary

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. **Synonyms** • Captive Insurer's • Captive Insurers

D

DUS	Delegated Underwriting and Servicing
DUS Gateway	Multifamily pre-acquisition system, or any successor systems, recording deal registration, Pre-Review and/or waiver tracking, Mortgage Loan Commitments, and decision records.

G

Guide	Multifamily Selling and Servicing Guide controlling all Lender and Servicer requirements unless a Lender Contract specifies otherwise. **Synonyms** • DUS Guide

M

MAMP	Multifamily Asset Management Portal used to submit • Property inspections, • operating statements, • requested modifications, • asset management reports, and • data corrections for loan or property attributes. **Synonyms** • Multifamily Asset Management Portal • MAMP's
Mortgage Loan	Mortgage debt obligation evidenced, or when made will be evidenced, by • the Loan Documents, or • a mortgage debt obligation with a Fannie Mae credit enhancement. **Synonyms** • Mortgage Loans • Mortgage Loan's

P

Portfolio Mortgage Loan	Mortgage Loan purchased by Fannie Mae and held as of a certain date regardless of whether it is a Cash Mortgage Loan or an MBS Mortgage Loan. **Synonyms** • Portfolio Mortgage Loans • Portfolio Mortgage Loan's
Property	Multifamily residential real estate securing the Mortgage Loan, including the • fee simple or Leasehold interest, • Improvements, and • personal property (per the Uniform Commercial Code). **Synonyms** • Properties • Property's

R

Rate Lock	Agreement between you and the Investor containing the terms of the Lender-Arranged Sale or Multifamily Trading Desk trade of the Mortgage Loan and the MBS terms and conditions relating to the underlying MBS, if applicable, which may be documented via a recorded telephone conversation. **Synonyms** • Rate Locks
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 • Risk Retention Groups