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# 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- / VII 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)	<p>State-issued license to an insurance company to conduct business, and includes the</p> <ul style="list-style-type: none"> <li>• date of authority,</li> <li>• complete Captive Insurer name, and</li> <li>• state of domicile.</li> </ul>
State Examination Report	<p>Report covering a specific timeframe that:</p> <ul style="list-style-type: none"> <li>• reviews the company's: <ul style="list-style-type: none"> <li>- balance sheet (including assets, liabilities, capital, and surplus);</li> <li>- statement of income;</li> <li>- investments;</li> <li>- premiums;</li> <li>- reinsurance assumed and ceded;</li> <li>- unpaid losses and loss adjustment expense;</li> </ul> </li> <li>and</li> <li>- losses and loss adjustment expense incurred;</li> <li>and</li> <li>• ascertains its: <ul style="list-style-type: none"> <li>- financial condition;</li> <li>- ability to fulfill obligations; and</li> <li>- compliance with applicable state laws and regulations.</li> </ul> </li> </ul>
Actuarial Report	<p>Report culminating with a statement of actuarial opinion (minimum requirement) after evaluating, opining, and certifying the adequacy of the Captive Insurer's</p> <ul style="list-style-type: none"> <li>• open and paid losses,</li> <li>• loss adjustment expense reserves,</li> <li>• capital, and</li> <li>• surplus.</li> </ul>
Loss History	<p>Frequency and severity of insurance losses covered by the Captive Insurer's policy during a specific timeframe.</p>



Unrated Risk Retention Group or Captive Insurer	
Document/Entity	Description
Reinsurance and/or Fronting Company	<p>Reinsurance is when an insurer transfers all or part of a risk to another insurer to reduce the risk for the first insurance.</p> <p>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.</p>
Captive Insurer	<p>Captive Insurer is either a:</p> <ul style="list-style-type: none"><li>• single parent captive (pure captive) - when an insurance subsidiary insures the loss exposures of its parent company or single entity; or</li><li>• group captive a captive owned by several different companies who are normally<ul style="list-style-type: none"><li>- from the same industry, and</li><li>- have similar risks.</li></ul></li></ul>

### ➔ 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 Gateway** Multifamily pre-acquisition system, or any successor systems, recording deal registration, Pre-Review and/or waiver tracking, Mortgage Loan Commitments, and decision records.

## 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**

## 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