Fannie Mae®

Multifamily Selling and Servicing Guide

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501.02 Property Insurance

501.02A Minimum Coverage Amounts

☑ Requirements

You must ensure:

- each Property has property insurance throughout the Mortgage Loan term; and
- the coverage:
  - is written using Special Peril Coverage;
  - is at least
    - 100% of estimated Insurable Value for a single-building Property, and
    - 90% of estimated Insurable Value for a multiple-building Property; and
  - either does not contain a Coinsurance Clause, or contains a Coinsurance Clause offset by an Agreed Amount Provision no less than 100% of the estimated Insurable Value.

Guidance

A margin clause:

- should not be used to determine compliant property insurance limits; and
- may contain provisions limiting additional coverage availability.

A Property Damage Insurance policy should contain an Inflation Guard endorsement that annually adjusts the insurance amount based on the inflation rate in the Property's geographic area.

501.02B Deductibles

☑ Requirements

The maximum deductible amounts:

- apply to all insurance coverages required by:
  - Part II, Chapter 5: Property and Liability Insurance, Section 502:

Catastrophic Risk Insurance; and

- Part II, Chapter 5: Property and Liability Insurance, Section 503.01: Generally; and

- must comply with the following tables.

Maximum Deductibles	
For the peril of...	The maximum deductible must not exceed...
Wind/Hail (unrelated to a catastrophic peril)	• 5% of the subject collateral's Total Insurable Value[1]; or • when expressed only as a dollar value: - $50,000 for collateral Insurable Values less than $10 million; or - $100,000 for collateral Insurable Values $10 million or more.
Named Storm and Earthquake	• 7.5% of the subject collateral's Total Insurable Value[1]; or • when expressed only as a dollar value: - $50,000 for collateral Insurable Values less than $10 million; or - $100,000 for collateral Insurable Values $10 million or more.
1 If a stated minimum deductible is listed, it must not exceed • $100,000 for a specific limit, and • $250,000 for a shared blanket limit.	

Maximum Deductibles for All Other Perils	
Specific Limit Insurance Policy	
For Policies...	The maximum deductible amount per occurrence based on the Total Insurable Value is...
Less than $10 million	$50,000
$10 million or more	$100,000

Maximum Deductibles for All Other Perils	
Blanket Deductibles	
For Blanket Policies with a...	The maximum deductible amount per occurrence is...
Blanket limit	$250,000
Specific limit	• $50,000 for collateral Insurable Values less than $10 million; or • $100,000 for collateral Insurable Values $10 million or more.
Expanded Deductibles [1]	
For Policies other than NFIP...	The maximum deductible amount per occurrence based on the Total Insurable Value is...
Less than $10 million	$100,000
$10 million or more	$150,000

1 Expanded deductibles must meet all the following:

• the Borrower evidences liquid assets equal to at least 4x the deductible amount;
• the Mortgage Loan
  - has a Pass rating,
  - is not currently delinquent, and
  - has not been delinquent within the last 12 months;

• the Property condition rating is a 2 or better; and
• you annually review the Mortgage Loan's eligibility.

Guidance

Before accepting any deductibles, you should:

- assess the Borrower's ability to pay the deductible throughout the policy term;
- determine the high deductible financial exposure by considering total paid expenses rather than only the difference between the
  - maximum allowable deductible, and
  - requested/actual deductible; and

- only use the Borrower's owned or related properties to determine the maximum deductible if insurance coverage is provided on a management company's or unrelated entities' master property program.

501.02C Aggregate Deductibles

Guidance

You may accept a Property and Liability policy that includes aggregate deductibles. The aggregate deductible may be higher than the maximum deductible required per Part II, Chapter 5: Property and Liability Insurance, Section 501.02B: Deductibles.

Requirements

If you accept a Property and Liability policy that includes aggregate deductibles, you must:

- confirm the aggregate deductible amount is fully funded and held by:
  - the Borrower in a segregated bank account;
  - you in the Tax and Insurance escrow; or
  - a third party for the Borrower's benefit; and
- require any claim checks to:
  - list you as payee c/o Fannie Mae; and
  - be considered insurance loss proceeds per the Loan Documents.

501.02D Business Income (including Rental Value) Insurance

Requirements

You must ensure:

- each Property has business income insurance (including rental value insurance), for all required coverages, including
  - ordinance or law (Coverage D),
  - windstorm,
  - flood,
  - earthquake, and
  - terrorism, etc.;

- coverage is based on:
  - Actual Loss Sustained for 12 months; or
  - the most recent annual reported (or annualized if annual financials are unavailable):
    - EGI; or
    - NOI plus continuing expenses;
- the maximum deductible for business income insurance does not exceed:
  - the maximum deductible for the property insurance policy, or
  - a waiting period of
    - 3 days, or
    - 72 hours; and
- coverage for a Mortgage Loan with a UPB of $35 million or more includes a 90-day Extended Period of Indemnity option.

501.02E Ordinance or Law Insurance

☑ Requirements

If the Property is non-conforming under any current land use law or ordinance, you must ensure the Property has ordinance or law insurance:

- for all perils, even if insured on a standalone policy; and
- that includes the Increased Period of Restoration (Coverage D) endorsement if any buildings are 5 stories or more.

Coverages	If ordinance or law insurance is required, you must ensure the Property has all of the following...

Coverages	If ordinance or law insurance is required, you must ensure the Property has all of the following...
Coverage A	Loss of Undamaged Portion equal to at least: • 100% of estimated Insurable Value for a single-building Property minus the damage threshold specified by the local building ordinance; • 90% of estimated Insurable Value for a multiple-building Property minus the damage threshold specified by the local building ordinance; or • 50% of the Insurable Value, if the local ordinance does not specify a threshold.
Coverage B	Demolition/Debris Removal Cost equal to at least 10% of the Insurable Value.
Coverage C	Increased Cost of Construction equal to at least 10% of the Insurable Value.

Guidance

Examples of ordinance or laws include

- bulk restrictions,
- building,
- zoning,
- energy management,
- green, or
- Fair Housing Act accessibility.

Some municipalities have no zoning districts. This primarily refers to use. Usually, buildings are still subject to building and safety codes; therefore, coverage is required.

Required Limits Example	
If...	Then the required coverage is...
for a single-building Property, the Insurable Value equals • $10 million, and • the damage threshold of the local building ordinance is 75%	100% of the Insurable Value, minus the damage threshold specified by the local building ordinance (e.g., $10 million - $7.5 million = $2.5 million for Coverage A).
Coverages A, B, and C are combined	the Coverage A amount plus 10% of the Insurable Value for Coverage B plus 10% of the Insurable Value for Coverage C (e.g., $2.5 million + $1 million + $1 million = $4.5 million).
Coverages B and C are combined	10% of the Insurable Value for Coverage B plus 10% of the Insurable Value for Coverage C (e.g., $1 million + $1 million = $2 million).

Coverage D for law and ordinance insurance:

- extends the business:
  - income and extra expense coverage; and
  - additional time to restore operations when delayed due to enforcement of building or zoning laws; and
- is paid from the Property's business income/rent loss coverage.

Without this Increased Period of Restoration endorsement, business income coverage does not include any "increased period" that may be necessary due to enforcement of an ordinance or law.

When evaluating this coverage you should ensure the business income/rent loss limit is adequate to reflect the increased period of restoration.

501.02F Equipment Breakdown or Boiler and Machinery Insurance

☑ Requirements

You must ensure:

- a Property with any high-pressure, centralized HVAC boiler, water heater,

or other vessel in operation and regulated by the Property's state or municipality has full equipment breakdown or boiler and machinery insurance;

- the coverage equals at least 100% of the Insurable Value of each building housing the equipment; and
- if equipment breakdown or boiler and machinery insurance is provided by a carrier other than the carrier providing the property damage policy, both policies include a Joint Loss Agreement.

501.02G Builder's Risk Insurance

☑ Requirements

If property insurance coverage is excluded during construction, renovation, or restoration, you must ensure the builder's risk insurance:

- is in place during the Construction Activity; and
- complies with Part II, Chapter 5: Property and Liability Insurance, Section 506.02: Builder's Risk Insurance.

501.02H Fidelity Bond / Crime Insurance

☑ Requirements

You must ensure:

- each Property owned by a Cooperative Organization has fidelity bond/crime insurance in an amount covering scheduled Cooperative Maintenance Fees for at least 3 months; and
- the fidelity bond/crime insurance deductible does not exceed $25,000.

501.02I Regional Perils Insurance

☑ Requirements

You must ensure:

- if a Property is in an area prone to geological phenomena, the property insurance coverage includes those phenomena; and
- the coverage equals 100% of the Insurable Value.

Guidance

Examples of geological phenomena include

- sinkhole,
- mine subsidence,
- volcanic eruption, and
- avalanche.

Glossary

B

Blanket Policy	Insurance policy providing coverage for multiple properties and/or multiple perils. **Synonyms** • Blanket
Bonds	Tax-exempt or taxable multifamily revenue bonds, or other tax-exempt or taxable bonds, issued to finance 1 or more Credit Enhancement Mortgage Loan Properties. **Synonyms** • Bond
Borrower	Person who is the obligor per the Note. **Synonyms** • Borrowers • Borrower's

C

Collateral	Property, Personal Property, or other property securing a Mortgage Loan.
Construction Activity	Construction, renovation, or restoration of Improvements: • beginning on the Construction Activity Start Date; and • ending on the Construction Activity Completion Date.

Cooperative Maintenance Fee	Periodic fee assessed each shareholder or owner of a Cooperative Organization to fund costs and expenses associated with ongoing operations of the Cooperative Property. **Synonyms** • Cooperative Maintenance Fees
Cooperative Organization	Corporation or legal entity where each shareholder or equity owner is granted the right to occupy a unit in a multifamily residential property under a proprietary lease or occupancy agreement.
Cooperative Property	Multifamily residential property owned by a Cooperative Organization. **Synonyms** • Co-op • Cooperative

E

Effective Gross Income	For any specified period, the Property's total Net Rental Income, plus commercial income, plus other income, all calculated per Part II, Chapter 2: Valuation and Income, Section 203: Income Analysis and the applicable products and features in Part III. **Synonyms** • EGI

G

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

I

Insurable Value	For any Property, the estimate of the maximum dollar amount needed to replace, repair, or reproduce the Property, but excluding any land value. **Synonyms** • Insurable Values

J

Joint Loss Agreement	Provision used when more than 1 insurer gives the same property coverage to temporarily allocate losses to ensure prompt payment to the policyholder. For covered losses, insurers pay the policyholder: • any undisputed amounts; and • all remaining sums in equal shares and insurers arbitrate among themselves to determine final responsibility for those sums.

L

Loan Documents	All Fannie Mae-approved documents evidencing, securing, or guaranteeing the Mortgage Loan. **Synonyms** • Loan Document • Mortgage Loan Document • Mortgage Loan Documents

M

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

N

National Flood Insurance Program	Program of flood insurance coverage and floodplain management administered under the National Flood Insurance Act. **Synonyms** • NFIP
Net Operating Income	At underwriting or for any specified period, the Property's total Effective Gross Income minus operating expenses. **Synonyms** • NOI

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
Property Condition Rating	An assessment of the Property's overall condition per the MBA Standard Inspection Form, expressed on a scale from 1 (the best Property Condition Rating) to 5 (lowest Property Condition Rating). **Synonyms** • Property Condition Ratings

T

Taxes and Insurance	Taxes or assessments that may become a Lien on the Property and insurance premiums. **Synonyms** • T&I • Tax and Insurance
Total Insurable Value	For any Property, the sum of the full value of the insured's: • covered Property; • Property-related business income values; and • any other covered Property interests. **Synonyms** • Total Insurable Values

U

UPB	Unpaid Principal Balance **Synonyms** • UPBs

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