



# Multifamily Selling and Servicing Guide

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## 501.02 Property Insurance

### 501.02A Minimum Coverage Amounts

#### Requirements

Each Property must have property insurance throughout the term of the Mortgage Loan. Coverage must be written on a Special Causes of Loss Form.

The coverage amount must be at least

- 100% of estimated insurable value for single-building Properties, and
- 90% of estimated insurable value for multiple-building Properties.

Coinsurance cannot exceed 90%.

The maximum deductible amount is based on the total insurable values of the Property insurance policy.

If the insurable value is...	The maximum deductible amount per occurrence is...
Less than \$5 million	\$15,000
Equal to or greater than \$5 million, but less than \$50 million	\$25,000
Equal to or greater than \$50 million, but less than \$100 million	\$100,000
Equal to or greater than \$100 million	\$250,000

These deductible amounts apply to all insurance coverages required by [Part II, Chapter 5: Property and Liability Insurance, Section 501.03: Catastrophic Risk Insurance](#) and [Part II, Chapter 5: Property and Liability Insurance, Section 501.04: Liability Insurance](#), unless a different amount is specified.

#### Guidance

100% coinsurance with the Agreed Value endorsement is acceptable. Renewal of the Agreed Value endorsement is not automatic.

### 501.02B Business Income (including Rental Value) Insurance



### Requirements

Each Property must have business income insurance (including rental value insurance), covering all perils, including windstorm, flood, earthquake, and terrorism.

Coverage must be based on either

- Actual Loss Sustained for 12 months, or
- Effective Gross Income for the most recent annual reporting period.

The maximum deductible for business income insurance cannot exceed the greater of the maximum deductible for the property insurance policy or a waiting period of up to 72 hours.

Coverage for a Mortgage Loan with a UPB of \$25 million or more must include a 90-day Extended Period of Indemnity option.

### Guidance

If a type of coverage is required but is excluded by the property insurance policy (e.g., ordinance or law), and the Borrower purchases the coverage separately, or adds it to the property insurance policy, you should confirm that business income insurance is also provided for the covered peril in order to satisfy the requirement.

## **501.02C** Ordinance or Law Insurance

### Requirements

Each Property that is non-conforming under any current land use law or was constructed 25 years or more before closing must have ordinance or law insurance. In this case, the Property must have:

- Coverage A: Loss of Undamaged Portion, in an amount equal to
  - 100% of the insurable value of the Property, less 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, in a minimum amount of 10% of the insurable value of the Property; and
- Coverage C: Increased Cost of Construction, in a minimum amount of 10% of the insurable value of the Property.

### Guidance



A Property is non-conforming if it cannot be rebuilt as is under current law. Examples of land use laws include building, zoning, energy management, green, and similar ordinances.

Rebuilding as is refers to the ability to build the same square footage within the same building footprint without increasing the non-conformity, as defined by the local ordinance. You should determine the feasibility of rebuilding within any time frame required by the ordinance.

Ordinance and law insurance is needed for an older Property, even if it is legally conforming under current zoning law, because the cost of construction will likely be significantly higher due to changes in building codes and construction requirements.

For example:

- When a Property has an insurable value of \$10 million and the damage threshold of the local building ordinance is 75%, \$2.5 million is the amount of coverage required for Coverage A. If A, B, and C are combined, then the required amount is \$2.5 million plus \$2 million, or \$4.5 million total.
- When Coverages A, B, and C are combined, the minimum limit is the Coverage A amount plus 20% of the insurable value of the Property.
- When Coverages B and C are combined, the minimum limit is 20% of the insurable value of the Property.

Properties that closed before February 3, 2014 are not required to have ordinance or law coverage if they are Legal Conforming and have a build date of 25 years or more before closing.

## **501.02D** Boiler and Machinery / Equipment / Mechanical Breakdown Insurance

### Requirements

Each Property located in a state that regulates centralized HVAC boiler, water heater, or other high-pressure vessels must have boiler and machinery insurance if it has such equipment.

The coverage amount must be at least 100% of the insurable value of each building that houses the equipment.

## **501.02E** Builder's Risk Insurance

### Requirements

If property insurance coverage is excluded during construction or significant renovation or restoration, the Property must have builder's risk insurance during such activity.



The coverage amount must be at least 100% of the completed value, on a non-reporting basis.

#### **501.02F** Fidelity Bond / Crime Insurance

##### Requirements

Each Property owned by a Cooperative Organization must have fidelity bond/crime insurance in an amount covering scheduled Cooperative Maintenance Fees for at least 3 months.

The deductible for fidelity bond/crime insurance may not exceed \$25,000.

#### **501.02G** Regional Perils Insurance

##### Requirements

If a Property is in an area prone to geological phenomena, the property insurance coverage must include those phenomena.

The coverage amount must be 100% of the insurable value.

##### Guidance

Examples of geological phenomena include sinkhole, mine subsidence, volcanic eruption, and avalanche.



# Glossary

## B

**Borrower** Person who is the obligor under the Note.

**Synonyms**

- Borrowers
- Borrower's

## C

**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.

## E

**Effective Gross Income** On an annual basis or any specified period, the total of Net Rental Income plus other income per [Part II, Chapter 2: Valuation and Income, Section 202: Income Analysis](#) and the applicable products and features in Part III.

**Synonyms**

- EGI

## 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

## P



Property

Multifamily residential property securing the Mortgage Loan and including the land (or Leasehold interest in land), Improvements, and personal property (as defined in the Uniform Commercial Code).

**Synonyms**

- Properties
- Property's

**U**

UPB

Unpaid Principal Balance