



Fannie Mae®

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# 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;
- the coverage is:
  - written on a Special Causes of Loss Form, or its equivalent; and
  - at least
    - 100% of estimated insurable value for a single-building Property, and
    - 90% of estimated insurable value for a multiple-building Property;
  - if a blanket policy has scheduled limits per building, each building is insured to 100% of the estimated insurable value; and
  - coinsurance does not exceed 90% on any coverage.

The maximum deductible:

- is based on the total insurable values of the Property insurance policy;
- amounts, unless otherwise specified, 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;
- for the peril of wind/hail (unrelated to a catastrophic peril), must not exceed 3% of the insurable Property value; and
- for all other perils, must comply with the following table.

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

### Guidance

100% coinsurance with the Agreed Value endorsement is acceptable.  
Renewal of the Agreed Value endorsement

- is not automatic, and
- must be confirmed at each renewal.

You should:

- assess the Borrower's ability to pay any deductible, even compliant ones:
  - before accepting any deductibles; and
  - throughout the policy term;
- determine the high deductible financial exposure by considering total out of pocket expenses rather than only the difference between the
  - maximum allowable deductible, and
  - requested/actual deductible; and
- if insurance coverage is provided on a management company's or unrelated entities' master property program, then only use the Borrower's owned or related properties to determine the maximum deductible.

A margin clause:

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

## **501.02B** 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 501.02A: Minimum Coverage Amounts](#).

## ☑ 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.

## **501.02C** 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 financial are unavailable):



- EGI; or
- NOI plus continuing expenses, with a completed business income worksheet submitted by the Borrower's agent/broker;
- the maximum deductible for business income insurance does not exceed the greater of
  - the maximum deductible for the property insurance policy, or
  - a waiting period up to 72 hours; and
- coverage for a Mortgage Loan with a UPB of \$25 million or more includes a 90-day Extended Period of Indemnity option.

## **501.02D** Ordinance or Law Insurance

### Requirements

You must ensure every Property has ordinance or law insurance:

- for all perils, even if insured on a standalone policy; and
- if the Property
  - is non-conforming under any current land use law or ordinance, and cannot be rebuilt "as is", and/or
  - was constructed 25 years or more before Delivery.

Ordinance or law insurance is not required if the:

- Property was constructed 25 years or more before Delivery, but was substantially rehabilitated (i.e., all fixtures and building materials were removed down to the studs, then rebuilt to then current building codes); or
- Mortgage Loan Origination Date was before February 3, 2014 and the Property's characteristics are legally conforming, regardless of the build date.



Coverages	If ordinance or law insurance is required, you must ensure the Property has all of the following...
Coverage A	Loss of Undamaged Portion, in an amount equal to <ul style="list-style-type: none"><li>• 100% of the Property's insurable value, minus the damage threshold specified by the local building ordinance, or</li><li>• 50% of the insurable value, if the local ordinance does not specify a threshold.</li></ul>
Coverage B	Demolition/Debris Removal Cost equal to at least 10% of the Property's insurable value.
Coverage C	Increased Cost of Construction equal to at least 10% of the Property's insurable value.

### ➔ Guidance

Examples of ordinance or laws include

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

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 maybe needed, even if it is legally conforming under current zoning law, because the construction cost will likely be significantly higher due to changes in building codes and construction requirements.

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...
A Property's insurable value equals <ul style="list-style-type: none"><li>• \$10 million, and</li><li>• the damage threshold of the local building ordinance is 75%</li></ul>	100% of the Property's insurable value, minus the damage threshold specified by the local building ordinance (i.e., \$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 Property's insurable value for Coverage B plus 10% of the Property's insurable value for Coverage C (i.e., \$2.5 million + \$1 million + \$1 million = \$4.5 million).
Coverages B and C are combined	10% of the Property's insurable value for Coverage B plus 10% of the Property's insurable value for Coverage C (i.e., \$1 million + \$1 million = \$2 million).

If law and ordinance insurance is required, the Increased Period of Restoration endorsement (Coverage D) is required. 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.

## 501.02E Boiler and Machinery / Equipment / Mechanical Breakdown Insurance

### Requirements

You must ensure:





- a Property with any high-pressure, centralized HVAC boiler, water heater, or other vessel that is in operation and regulated by the state or municipality where the Property is located has full boiler and machinery coverage; and
- the coverage equals at least 100% of the insurable value of each building housing the equipment.

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

##### Requirements

You must ensure:

- if property insurance coverage is excluded during construction or significant renovation or restoration, the Property has builder's risk insurance during such activity; and
- the coverage equals at least 100% of the completed value, on a non-reporting basis.

#### **501.02G** 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.

#### **501.02H** 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

**Borrower** Person who is the obligor per 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.

## D

**Delivery** Submission of all correct, accurate, and certifiable documents, data, and information with all applicable documents properly completed, executed, and recorded as needed, and any deficiencies resolved to Fannie Mae's satisfaction.

### **Synonyms**

- Deliver
- Delivered
- Deliveries

## 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

## Mortgage Loan Origination Date

Date you fund a Mortgage Loan to the Borrower.

### **Synonyms**

- Mortgage Loan's Origination Date
- Origination Date

## **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

## **U**

## UPB

Unpaid Principal Balance

### **Synonyms**

- UPBs