



Fannie Mae®

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# Multifamily Selling and Servicing Guide

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## 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.



# Glossary

## 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

## M

### 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