Fannie Mae®

Multifamily Selling and Servicing Guide

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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...
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 Propertys 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.

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Glossary

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

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