



Fannie Mae®

Multifamily Selling and Servicing Guide

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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.



Glossary

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