Fannie Mae®

Multifamily Selling and Servicing Guide

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Section 502 Catastrophic Risk Insurance

502.01 Generally

Requirements

You must ensure:

- a Property has the coverages required by Part II, Chapter 5: Property and Liability Insurance, Section 502: Catastrophic Risk Insurance for perils related to catastrophic loss if the Property is in an area prone to Catastrophic Events;
- the Property has a separate insurance policy if the Special Peril Coverage of Loss Form excludes a Catastrophic Event coverage that is required; and
- if ordinance or law coverage is required on the property policy, then coverage is obtained for catastrophic losses if the catastrophic peril is insured on a standalone policy.

502.02 Named Storm Insurance

Guidance

If named storm coverage is unavailable, Fannie Mae will consider approving 1 of the following options:

- a State insurance plan; or
- a State-managed insurance pool for
  - windstorm, or
  - beach erosion.

Requirements

You must ensure:

- the Property has separate named storm insurance if the:
  - Special Peril Coverage of Loss Form excludes any type of wind-related Catastrophic Event; and
  - Property is located in a Tier I named storm county, as defined by the insurer;

- the coverage equals at least 90% of the Total Insurable Value
  - on a standalone policy, and
  - of the largest individual property on a Blanket Policy;
- if the named storm policy does not cover costs due to flooding from storm surge, the Borrower maintains flood insurance for any buildings located in the 500-year flood zone equal to the maximum coverage available through NFIP policies or their equivalent;
- the valuation does not rely solely on Probable Maximum Loss (PML) calculations;
- the deductible does not exceed the greater of:
  - 7.5% of the subject collateral's Total Insurable Value; or
  - the applicable maximum amount per Part II, Chapter 5: Property and Liability Insurance, Section 501.02B: Deductibles; and
- for business income insurance, the waiting period does not exceed:
  - when expressed as a number of days, 15 days; or
  - when expressed as a dollar amount, $100,000.

Guidance

A FEMA 500-year flood zone is:

- an area with a 0.2% annual chance of flooding (1-in-500 annual chance); and
- designated as Zone X (Shaded), formerly Zone B.

Zone X (Shaded), formerly Zone B, is:

- considered a moderate flood hazard area; and
- generally located between the 100-year and the 500-year floodplain limits.

502.03 Flood Insurance

502.03A Generally

Operating Procedures

To determine if any buildings located at the Property are, or will be, fully or partially located in an SFHA, you must:

- use the FEMA Standard Flood Hazard Determination Form (SFHDF);
- evaluate all Property structures when ordering the SFHDF;
- provide the vendor supplemental Property information including the
  - legal description, and
  - survey or site plan;
- obtain an image overlay from Flood Vendor;
- ensure the resulting Flood Zone Determination (FZD) form, and any subsequent FZD forms, are effective for the entire Mortgage Loan term; and
- retain a signed copy in your Servicing File.

☑ Requirements

You must ensure the Property has flood insurance if:

- any income-producing Improvements or any non-income producing Improvements that support amenities are in an SFHA Zone starting with the letter A or V; or
- the Property is located within a Coastal Barrier Resources System (CBRS) or Otherwise Protected Area (OPA), regardless of if the Property is located in an SFHA.

A Mortgage Loan is ineligible for purchase if the Property is in:

- an SFHA; and
- a community that does not participate in the NFIP.

You must:

- complete the most recent version of the Standard Flood Hazard Determination Form issued by FEMA;
- retain in your Servicing File a
  - copy of the form, and
  - signed copy of Notice to Borrower of Special Flood Hazard and Federal Assistance;
- require the determination firm, and any monitoring company, to notify you whenever there is a flood zone change; and
- ensure the coverage:
  - meets the minimum mandatory purchase requirements per:

- the following Federal flood insurance statutes, as amended and/or restated from time to time, including the:
  - National Flood Insurance Act of 1968 (1968 Act);
  - Biggert-Waters Flood Insurance Reform Act of 2012 (Biggert Waters);
  - Flood Disaster Protection Act of 1973 (FDPA); and
  - Homeowner Flood Insurance Affordability Act of 2014; and
- any applicable Federal agency rulemaking and publication; and

- equals at least 100% of the Insurable Value of
  - the first 2 floors above grade, and
  - any Improvements below grade;

- require contents coverage for Borrower-owned personal property;
- ensure you have an established process to obtain an inventory and the Insurable Value of Borrower-owned contents or business personal property within buildings located in SFHAs to determine required coverage; and
- retain documentation of the presence or absence of Borrower-owned contents or business personal property within the building and in your Servicing File.

Guidance

Generally, contents or business personal property:

- includes equipment and inventory
  - owned by the Borrower, and
  - used in connection with Propertys
    - ownership,
    - management, or
    - operation; and
- does not otherwise constitute fixtures.

502.03B Deductibles



☑ Requirements

You must comply with the following tables.

Flood Maximum Deductibles	
For...	You must ensure the...
Business income insurance	deductible does not exceed: • when expressed as a number of days, 15 days; or • when expressed as a dollar amount, $100,000.
NFIP policies	maximum deductible available under NFIP is acceptable.

Private Flood Policy Maximum Deductibles	
If the Property has...	Themaximum deductible is...
10 or fewer buildings in SFHA	$50,000 per building.
More than 10 buildings in SFHA	$500,000 per occurrence.

502.03C NFIP Policy

☑ Requirements

You must comply with the following table.

NFIP and Excess Flood Coverage	
If...	Then...
Coverage available under the NFIP is insufficient	the Borrower must purchase excess flood insurance covering thedifference, up to the required coverage amount.

NFIP and Excess Flood Coverage	
If...	Then...
Per elevation certificates completed by a licensed land surveyor, engineer, or architect: • any of the building's Lowest Adjacent Grade (LAG) are above Base Flood Elevation (BFE); and • the Borrower confirms application for a Letter of Map Amendment (LoMA)	• only NFIP insurance is required for those buildings, and • the maximum term for only NFIP insurance is 12 months.

To remove a Property/building from an SFHA, only an updated FEMA Standard Flood Hazard Determination Form (SFHDF) based on the following is acceptable:

- Letter of Map Amendment (LoMA);
- Letter of Map Revision (LoMR); or
- Letter of Determination Review (LoDR).

If a LoMA was previously declined, you must ensure the Borrower is reapplying due to:

- new or corrected elevation data;
- a Property change or additional documentation; or
- updated information to address a previous declination.

During the LoMA process:

- only NFIP insurance is required provided the declination was not based on a fundamental issue (such as the Property being located below the Base Flood Elevation (BFE)); and
- the maximum term for NFIP insurance is 12 months.

If any Improvements are reclassified as within an SFHA Zone starting with the letter A or V after you Deliver the Mortgage Loan, you must require the Borrower to obtain compliant flood insurance.

Guidance

To prevent the Borrower from paying for more coverage than an NFIP policy would pay out, you should evaluate the extent of recovery allowed under the

NFIP policy for the type of building being insured.

If all buildings do not require flood insurance, but the Property ingress is located in an SFHA, you should consider requiring business income insurance for excess flood to cover all buildings.

Flood insurance is not required if only unimproved portions of the Property, or non-income producing Improvements that do not support amenities at the Property, are located in an SFHA.

Non-Income Producing Improvements	
Supporting amenities include...	Not supporting amenities include...
• clubhouses, and • pool houses.	• sheds, • pump houses, and • storage buildings.

Business income insurance is not required for non-income producing Improvements.

You should consider that

- conditions may change over time, and
- flood zones may be remapped.

You or Fannie Mae may require flood insurance for Improvements outside an SFHA Zone starting with the letter A or V, but within an area designated by FEMA as Zone X or Zone D (for example, if a Property's location is subject to flooding due to storm water, or within close proximity to an SFHA boundary).

The acceptable deductible for excess flood insurance is the coverage limit of the underlying NFIP policy.

Elevation certificates are not valid to determine if Improvements are in an SFHA.

You should:

- obtain flood zone determinations from qualified third-party flood-zone determination firms; and
- exercise care and sound judgment when selecting the firm.

Operating Procedures

You must:

- obtain life-of-loan monitoring for each Property from a third-party flood-zone determination firm;

- complete FEMA's Standard Flood Hazard Determination form to determine if any Improvements are located in an SFHA; and
- retain in your Servicing File a:
  - completed copy of the form; and
  - signed copy of the Notice to Borrower of Special Flood Hazard and Federal Assistance (included in the Flood Determination Certificate).

502.03D Private Flood Policy

Requirements

You must ensure a private flood insurance policy:

- is written on a Replacement Cost Valuation basis without any deduction for depreciation; and
- provides coverage and terms as broad as or better than the coverage and terms provided under a standard flood insurance policy issued under the NFIP.

502.04 Earthquake Insurance

Requirements

You must ensure the Property has earthquake insurance if required by Fannie Mae. For any required coverage, ensure:

- coverage is at least 100% of the Insurable Value;
- the deductible does not exceed the greater of:
  - 7.5% of the Total Insurable Value; or
  - the applicable maximum amount per Part II, Chapter 5: Property and Liability Insurance, Section 501.02B: Deductibles; and
- for business income insurance, the waiting period does not exceed:
  - when expressed as a number of days, 15 days; or
  - when expressed as a dollar amount, $100,000.

Earthquake insurance may be required while the Property is being retrofitted.

Operating Procedures

If retrofitting is required and not completed within the agreed timeframe, you must not accept earthquake insurance as a substitute.

502.05 Terrorism Insurance

☑ Requirements

You must ensure:

- each Property has terrorism insurance for property damage/casualty and liability exposures;
- exceptions are only made to professional liability insurance where terrorism coverage is not required;
- the coverage is at least:
  - 100% of estimated Insurable Value for a single-building Property; and
  - 90% of estimated Insurable Value for a multiple-building Property; and
- for business income insurance, the deductible does not exceed:
  - when expressed as a number of days, 15 days; or
  - when expressed as a dollar amount, $100,000.

Glossary

B

Blanket Policy	Insurance policy providing coverage for multiple properties and/or multiple perils. **Synonyms** • Blanket
Borrower	Person who is the obligor per the Note. **Synonyms** • Borrowers • Borrower's

C

Catastrophic Event	Natural or man-made hazard resulting in an event of substantial extent causing
	• significant physical damage or destruction,
	• loss of life, or
	• drastic change to the natural environment, such as
	  - earthquake,
	  - flood,
	  - terrorist attack, or
	  - windstorm.
	
	Synonyms
	• Catastrophic Events

Collateral	Property, Personal Property, or other property securing a Mortgage Loan.

D

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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 Maes satisfaction. **Synonyms** • Deliver • Delivered • Deliveries

F

FEMA	Federal Emergency Management Agency **Synonyms** • FEMA's

G

Guide	Multifamily Selling and Servicing Guide controlling all Lender and Servicer requirements unless a Lender Contract specifies otherwise. **Synonyms** • DUS Guide

H

Homeowner	For an MH Community, a tenant of the Borrower who pays ground rent to the owner for use and occupancy of the MH Site and for use of the MH Communitys utilities and amenities. **Synonyms** • Homeowners

I

Improvements	Buildings, structures, improvements, and alterations, including the multifamily housing dwellings, now or hereafter constructed or placed on the Property, including all fixtures (as defined in the UCC). **Synonyms** • Improvements'
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

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

N

National Flood Insurance Program	Program of flood insurance coverage and floodplain management administered under the National Flood Insurance Act. **Synonyms** • NFIP

P

Personal Property	Furniture, fixtures, equipment, and other tangible personal property located on or used in connection with the Property.
Pricing and Underwriting Tier	Tier 1, Tier 2, Tier 3, or Tier 4 per the Multifamily Underwriting Standards (Form 4660). **Synonyms** • Tier
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

R

Replacements	Capital item replacements and major maintenance needs identified by the Property Condition Assessment or otherwise required. **Synonyms** • Replacement

S

Servicing File	Your file for each Mortgage Loan serviced. **Synonyms** • Servicing Files

Special Flood Hazard Area	Special Flood Hazard Area designated by FEMA. **Synonyms** • SFHA • SFHAs • SFHA Zone

T

Total Insurable Value	For any Property, the sum of the full value of the insured's: • covered Property; • Property-related business income values; and • any other covered Property interests. **Synonyms** • Total Insurable Values