



Fannie Mae®

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# Multifamily Selling and Servicing Guide

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## **501.03** Catastrophic Risk Insurance

### **501.03A** Generally

#### Requirements

You must ensure:

- a Property has the coverages required by [Part II, Chapter 5: Property and Liability Insurance, Section 501.03: 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 Causes 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.

### **501.03B** Windstorm Insurance

#### Requirements

You must ensure the:

- Property has separate windstorm insurance if the Special Causes of Loss Form excludes any type of wind-related Catastrophic Event;
- coverage equals at least 100% of the insurable value;
- valuation does not rely solely on Probable Maximum Loss (PML) calculations; and
- deductible does not exceed the greatest of
  - 10% of the insurable Property value,
  - the applicable maximum amount per [Part II, Chapter 5: Property and Liability Insurance, Section 501.02A: Minimum Coverage Amounts](#), and
  - for business income insurance, the greater of
    - the maximum deductible for the property insurance policy, or
    - an amount equal to 15 days of business income or equivalent.



## ➔ Guidance

If a business income insurance deductible is stated as a total dollar amount, you should:

- calculate the deductible on a per day basis; and
- ensure the aggregate per day amount does not exceed 15 days of income.

For example:

If the business income requirement is \$1,000,000, and the policy indicates a business income deductible of \$100,000, and the maximum deductible allowed for the Property is the greater of (a) \$25,000, or (b) an amount equal to 15 days of income, the policy is not compliant since:

- \$1,000,000 divided by 365 equals \$2,740 per day;
- \$2,740 multiplied by 15 days equals \$41,095; and
- \$100,000 is higher than both the allowed \$25,000 Property deductible and the total 15-day calculation.

If catastrophic windstorm coverage is unavailable in the market, Fannie Mae will consider approving 1 of the following options:

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

Catastrophic windstorm coverage:

- includes hurricane and tropical storm damage; and
- may be categorized or defined in the insurance policy using terms such as
  - named storm, or
  - tier one, etc.

If windstorm coverage is unavailable or is not economically feasible, you may submit the following for Pre-Review:

- a recommendation for a reasonable coverage amount, given the exposure and based on your knowledge of the Property and Borrower;
- all compelling reasons for approving the request;



- the Property's precise location;
- blanket analysis per Part II, Chapter 5: Property and Liability Insurance, Section 501.01B: Blanket and Other Policies Covering Multiple Properties;
- construction analysis; and
- any financial mitigants available.

### 501.03C Flood Insurance

#### 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 ensure the coverage:

- meets the mandatory purchase requirements identified in
  - the Federal flood insurance statutes, and
  - any applicable Federal agency rulemaking and publication;
- has a waiting period no more than 15 days; and
- equals at least 100% of the insurable value of
  - the first 2 floors above grade and any Improvements below grade, plus
  - all Fixtures and Goods (as defined in the Security Instrument) located on the first 2 floors above grade and/or below grade.

You must ensure the deductible does not exceed the greatest of:

- 5% of the Property's insurable value;



- the applicable maximum amount in [Part II, Chapter 5: Property and Liability Insurance, Section 501.02A: Minimum Coverage Amounts](#); or
- for business income insurance,
  - the maximum deductible for the property insurance, or
  - a waiting period of up to 15 days or equivalent.

NFIP and Excess Flood Coverage	
If...	Then...
Coverage available under the NFIP is insufficient	the Borrower must purchase excess flood insurance covering the difference, up to the required coverage amount.
Per elevation certificates completed by a licensed land surveyor, engineer, or architect: <ul style="list-style-type: none"><li>• any of the building's Lowest Adjacent Grade (LAG) are above Base Flood Elevation (BFE); and</li><li>• the Borrower confirms application for a Letter of Map Amendment (LoMA)</li></ul>	<ul style="list-style-type: none"><li>• only NFIP insurance is required for those buildings, and</li><li>• the maximum term for only NFIP insurance is 12 months.</li></ul>

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).

During the LoMA process,

- only NFIP insurance is required, 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

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...
<ul style="list-style-type: none"><li>• clubhouses, and</li><li>• pool houses.</li></ul>	<ul style="list-style-type: none"><li>• sheds,</li><li>• pump houses, and</li><li>• storage buildings.</li></ul>

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;
- exercise care and sound judgment when selecting the firm; and
- require the determination firm, and any monitoring company, to notify you whenever there is a flood zone change.

For business income insurance deductible, if a dollar amount is indicated, you should calculate the per day amount ensuring the deductible does not exceed the 15-day total amount allowed. See [Part II, Chapter 5: Property and Liability Insurance, Section 501.03B: Windstorm Insurance](#) for a



deductible calculation example.

### 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;
  - a signed copy of the Notice to Borrower of Special Flood Hazard and Federal Assistance (included in the Flood Determination Certificate); and
  - if you permitted a reduced amount of excess flood insurance,
    - your analysis, and
    - related documentation supporting the economic feasibility and reduction amount.

## **501.03D** Earthquake Insurance

### Requirements

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

- coverage is at least 100% of the insurable value;
- waiting period is no more than 15 days; and
- deductible does not exceed the greatest of:
  - 10% of the insurable Property value;
  - the applicable maximum amount per [Part II, Chapter 5: Property and Liability Insurance, Section 501.02A: Minimum Coverage Amounts](#); and
  - for business income insurance, the greater of
    - the maximum deductible for the property insurance policy, or
    - a 15-day waiting period.





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

#### Guidance

For business income insurance deductible, if a dollar amount is indicated, you should calculate the per day amount ensuring the deductible does not exceed the 15-day total amount allowed. See [Part II, Chapter 5: Property and Liability Insurance, Section 501.03B: Windstorm Insurance](#) for a deductible calculation example.

#### Operating Procedures

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

### **501.03E** Terrorism Insurance

#### Requirements

You must ensure:

- each Property has terrorism insurance for property damage/casualty and liability exposures, unless
  - it secures a Mortgage Loan with a UPB less than \$25 million, and
  - you performed a risk assessment indicating no or low terrorism risk;
- the coverage is at least 100% of the Improvements' insurable value; and
- the deductible does not exceed the greatest of:
  - 20% of the insurable Property value;
  - the applicable maximum amount per [Part II, Chapter 5: Property and Liability Insurance, Section 501.02A: Minimum Coverage Amounts](#); and
  - for business income insurance,
    - the maximum deductible for the property insurance policy, or
    - a 15-day waiting period.

#### Guidance

You should ensure your risk assessment considers:

- concentrations of risk and overall exposures;



- the Property's location relative to potential terrorist targets, such as
  - tourist attractions,
  - power grids,
  - mass transportation facilities, and
  - government buildings; and
- how far reaching a terrorist event could be, for example a:
  - mass transit facility directly below the Property and an airport 5 miles away; and
  - biohazard or nuclear facility within the Property's vicinity.

For business income insurance deductible, if a dollar amount is indicated, you should calculate the per day amount ensuring the deductible does not exceed the 15-day total amount allowed. See [Part II, Chapter 5: Property and Liability Insurance, Section 501.03B: Windstorm Insurance](#) for a deductible calculation example.

### Operating Procedures

You must retain a copy of your risk assessment in your Servicing File.



# Glossary

## B

**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

## F

**FEMA** Federal Emergency Management Agency

### Synonyms

- FEMA's

## 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'



## 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

## P

### Pre-Review

Requirement that you obtain Fannie Mae's approval before you Rate Lock a Mortgage Loan.

### 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

## S

### Security Instrument

Instrument creating a lien or encumbrance on 1 or more Properties and securing the Loan Document obligations.

#### **Synonyms**

- Security Instruments
- Security Instrument's

### Servicing File

Your file for each Mortgage Loan serviced.

#### **Synonyms**

- Servicing Files



# U

UPB

Unpaid Principal Balance

## **Synonyms**

- UPBs