Fannie Mae®

Multifamily Selling and Servicing Guide

Effective as of April 14, 2025

TABLE OF CONTENTS

Summary of Changes

HIGHLIGHTS
Effective for all Mortgage Loans as of April 14, 2025, updated Part II, Chapter 5: Property and Liability Insurance, Section 501.04: Liability Insurance.

Primary Change

Clarified liability insurance requirements specifying that coverage must be without exclusions.

Per Part II, Chapter 5: Property and Liability Insurance, Section 501.04: Liability Insurance, you must ensure each Property and Borrower is covered, without exclusions, throughout the Mortgage Loan term for

- bodily injury,
- Property damage, and
- personal injury.

Questions

Please contact Jennifer Clements at (202) 752-5988, or jennifer_d_clements@fanniemae.com, with any questions.

Chapter 5 Property and Liability Insurance

Section 501 Property and Liability Insurance

501.01 General Insurance – Applies to All Policies

501.01A Generally

Guidance

When terms or acronyms for insurance forms and policies are capitalized in this Chapter, they refer to Insurance Services Office (ISO) forms and policies or their equivalent. Other capitalized terms and acronyms have standard insurance industry meanings.

Requirements

As of the Mortgage Loan Origination Date, you must ensure each Property is covered by compliant property insurance and liability insurance.

You must ensure all insurance policies:

- list the Borrower as a named insured;
- are written on a per occurrence basis, except the following, which may be written on a per occurrence or claims-made basis:
  - earthquake insurance;
  - directors' and officers' insurance;
  - professional liability insurance; and
  - general liability insurance for Seniors Housing Properties only when combined with professional liability insurance;
- unless the Loan Documents expressly state otherwise, require the carrier to notify the named Mortgagee and/or Additional Insured in writing
  - at least 10 days before policy cancellation for non-payment of premium, and
  - 30 days before cancellation for any other reason;
- except for professional liability insurance, name:
  - Fannie Mae as Additional Insured on

    - general liability insurance, and
    - excess/umbrella insurance; and
  - "Fannie Mae, its successors, and assigns" as Mortgagee and Loss Payee on property insurance; and
- use Replacement Cost valuation; however, coverage for roofs may use
  - Actual Cash Value, or
  - Replacement Cost valuation.

Guidance

You should:

- obtain the advance cancellation notice for the benefit of each Mortgagee and Additional Insured from the insurance carriers whenever possible; or
- if the insurer will not provide advance cancellation notices, ensure the Loan Documents were not modified in any manner limiting:
  - the Borrower's obligation to promptly inform you of any notice of cancellation it receives from an insurance carrier; or
  - any recourse liability of the Borrower or any Guarantor for failing to maintain all insurance coverages required by the
    - Loan Documents, and
    - Guide.

When a Property management company provides insurance, you should confirm the Borrower is listed as an Additional Insured on the applicable policies.

An acceptable mortgagee clause is:

> Fannie Mae, its successors and/or assigns, as their interest may appear
> c/o [Lender Name]
> Lender's Street Address or PO Box
> Lender's City, State and Zip Code

Operating Procedures

If the insurer will not provide advance cancellation notices, your Servicing File must include

- evidence of your attempts to obtain the notice provisions, and
- a copy of the state statute regarding cancelation notification.

501.01B Blanket and Other Policies Covering Multiple Properties

Requirements

You must ensure:

- any blanket policy coverage is as good as, or better than, a single property insurance policy; and
- the Property is listed and identified in the policy or associated schedules.

Guidance

A blanket policy may include

- blanket policies,
- blanket programs,
- first loss limit policies,
- first loss policies,
- layered programs,
- master policies,
- master programs,
- property programs,
- pooled insurance,
- scheduled limit policies,
- pooled programs,
- shared limit policies, and
- similar programs insuring multiple locations under the same insurance policy.

You may accept a blanket policy if

- all other requirements are met, and
- the Terms and Conditions endorsement does not reduce, limit, or exclude any required coverage.

When evaluating a blanket policy or multiple property policies, you should consider:

- Are the required coverages adequate for the Property?
- If the blanket policy limits are less than 100% of the total insurable value of the covered properties, is the shortfall warranted by high policy limits and geographic dispersion?
- If the blanket policy covers high catastrophic exposure in a geographically concentrated area, is the limit adequate for the exposure, or should the Borrower obtain additional coverage?

Programs insuring properties that are not under common ownership with the Borrower or a Key Principal, Principal, Sponsor, or Affiliate of the Borrower, or managed by the same property management company, may provide evidence of insurance that appears to be a standard layered program.

You should look for red flags signaling that a program may not be a standard layered program, such as:

- the Borrower or Sponsor is not the first named insured;
- the premium significantly decreased when the Property was added to an existing policy; or
- having a large, rounded coverage limit for property insurance.

You may confirm common ownership through an insurance broker or agent. If the covered properties are not related by ownership or under the same property management, you should also evaluate the insurance administrator, considering

- the acceptability of its business practices,
- possible payment of claims, and
- years in business, etc.

Operating Procedures

You must

- clearly document your analysis of any blanket policy (related or unrelated entities) in your Servicing File, and
- include supported conclusions.

501.01C Risk Retention Groups and Captive Insurance

Requirements

You must ensure any Risk Retention Group or Captive Insurer has a rating of at least:

- A- / VI from A.M. Best Company; or
- A from Demotech, Inc.

For any Risk Retention Group or Captive Insurer that is not satisfactorily rated, before Rate Lock, you must:

- obtain and review the applicable information in the Unrated Risk Retention Group or Captive Insurer table; and
- submit a
  - written summary, and
  - recommendation for approval, explaining
    - any non-compliant requirements,
    - any adverse findings, and
    - your rationale for recommending approval.

Unrated Risk Retention Group or Captive Insurer	
Document/Entity	Description
Certificate of Authority (CA)	State-issued license to an insurance company to conduct business, and includes the • date of authority, • complete Captive Insurer name, and • state of domicile.

Unrated Risk Retention Group or Captive Insurer	
Document/Entity	Description
State Examination Report	Report covering a specific timeframe that: • reviews the company's: - balance sheet (including assets, liabilities, capital, and surplus); - statement of income; - investments; - premiums; - reinsurance assumed and ceded; - unpaid losses and loss adjustment expense; and - losses and loss adjustment expense incurred; and • ascertains its: - financial condition; - ability to fulfill obligations; and - compliance with applicable state laws and regulations.
Actuarial Report	Report culminating with a statement of actuarial opinion (minimum requirement) after evaluating, opining, and certifying the adequacy of the Captive Insurer's • open and paid losses, • loss adjustment expense reserves, • capital, and • surplus.
Loss History	Frequency and severity of insurance losses covered by the Captive Insurer's policy during a specific timeframe.

Unrated Risk Retention Group or Captive Insurer	
Document/Entity	Description
Reinsurance and/or Fronting Company	Reinsurance is when an insurer transfers all or part of a risk to another insurer to reduce the risk for the first insurance. Fronting company is using a licensed, admitted insurer to issue an insurance policy on behalf of a self-insured organization or Captive Insurer without intending to transfer any of the risk. The risk of loss is retained by the self-insured or Captive Insurer with an indemnity or reinsurance agreement.
Captive Insurer	Captive Insurer is either a: • single parent captive (pure captive) - when an insurance subsidiary insures the loss exposures of its parent company or single entity; or • group captive – a captive owned by several different companies who are normally - from the same industry, and - have similar risks.

Guidance

Captive Insurers (and similar arrangements):

- may have lower capitalization requirements than traditional insurance companies; and
- are not usually rated by a recognized rating agency.

For Captive Insurers, you should:

- confirm they
  - are financially stable, and
  - have adequate funds to cover potential losses; and
- review additional documents as warranted.

Operating Procedures

You must submit all documents for unrated Captive Insurers or Risk Retention Groups:

- through DUS Gateway, for new Mortgage Loan submissions; and
- annually through the MAMP, for Portfolio Mortgage Loans.

501.01D Insurance Carrier Rating

Requirements

You do not need to rate

- State pools or funds, or
- NFIP policies.

All Other Insurance Carrier Ratings	
You must ensure...	The insurance carrier...
For a new policy	• for A.M. Best Company, has a - general policyholder rating of A- or better, and - financial size category of VI or better; or • for Demotech, Inc., has a Financial Stability Rating of A or better.
For an existing policy (at origination or afterward)	• for A.M. Best Company, - has a general policyholder rating of B++ or better, and - complies with the rating requirements for new policies at renewal; or • for Demotech, Inc., complies with the rating requirements for new policies.

Guidance

A new policy is one that is

- not already in force, and

- most common for an acquisition.

An existing policy is

- most common for a refinance, or
- when the Property is added to a policy that the Borrower already has in force.

501.01E Term

Guidance

Policies should have a term of at least 12 months. For new Mortgage Loans, a Property may be added mid-term to an existing 12-month policy.

You may accept a policy term of less than 12 months if, when it expires, the policy will be renewed for at least 12 months.

501.01F Payment of Premium

Requirements

You must:

- ensure premiums for all required insurance policies are either:
  - paid in full annually; or
  - payable in installments, for which you have receipts confirming timely payment;
- not provide premium financing to the Borrower; and
- only permit third-party premium financing if the financing agreement:
  - has no negative impact on
    - you,
    - Fannie Mae, or
    - the Mortgage Loan collateral;
  - does not include any conditions that could prevent you or Fannie Mae from receiving the insurance proceeds; and
  - the Modifications to Multifamily Loan and Security Agreement

(Financing of Insurance Premiums) (Form 6272) was executed.

If the Borrower finances premiums, you must

- review the financing agreement,
- confirm timely payment of each premium was made, and
- retain in the Servicing file
  - the financing agreement, and
  - evidence of premium payments.

501.01G Evidence of Insurance

Requirements

You must have:

- temporary or permanent evidence of insurance when the Mortgage Loan closes; and
- permanent evidence of insurance within 90 days after Mortgage Loan Delivery.

Guidance

Acceptable Evidence of Insurance	
Acceptable Temporary Evidence Forms	Acceptable Permanent Evidence Forms
• ACORD 28 – Evidence of Commercial Property Insurance (most recent version or, if applicable, the state-approved form), combined with ACORD 25 – Certificate of Liability Insurance. • ACORD 75 – Insurance Binder. • If an ACORD certificate is unavailable, a joint letter from the Borrower and its licensed insurance broker/agent certifying that all coverages, terms, and conditions meet the requirements. • For NFIP flood insurance: - the Policy Declaration page; or - a copy of the signed application and proof of payment.	• An original or duplicate copy of the insurance policy. • For a Property securing a Mortgage Loan with a UPB: - less than or equal to $10 million, the MBA Evidence of Insurance - Commercial Property Form; or - greater than $10 million, or for blanket policies with multiple layers, duplicate copies of the primary insurance policies, which should: ▪ include a letter (signed and dated on company letterhead) from an individual authorized to execute evidence of insurance on behalf of the insurance carriers issuing each policy; ▪ state that all policies follow the same terms, conditions, and exclusions as the primary policy, with any differences specified; and ▪ for NFIP flood insurance, include the Policy Declaration page.

The following are not acceptable forms of permanent evidence:

- insurance policy declarations pages (except for an NFIP policy);
- single policy endorsement;
- insurance binders; and
- certificates of insurance.

Some insurance carriers use boilerplate policies that do not change from year to year. If so, you:

- should keep a specimen kit or library of such policies and endorsements; and
- may place only the renewal Declarations Page in your Servicing File as permanent evidence along with a list of endorsements.

501.01H Insurance Exceptions

Requirements

Post-closing exception request submissions must include current information.

All exceptions, including those delegated, must be documented in the applicable business application.

You must submit any insurance exception request:

- through DUS Gateway with all applicable data fields completed in the system, not via an attached waiver document;
- at least 72 hours before Rate Lock; and
- with all supporting documentation.

Guidance

If the waiver is approved for the entire Mortgage Loan term, it will be stated in the approval.

501.02 Property Insurance

501.02A Minimum Coverage Amounts

Requirements

You must ensure:

- each Property has property insurance throughout the Mortgage Loan term;
- the coverage is:
    - written on a Special Causes of Loss Form, or its equivalent; and
    - at least
        - 100% of estimated insurable value for a single-building

Property, and

  - 90% of estimated insurable value for a multiple-building Property;

- if a blanket policy has scheduled limits per building, each building is insured to 100% of the estimated insurable value; and
- coinsurance does not exceed 90% on any coverage.

The maximum deductible:

- is based on the total insurable values of the Property insurance policy;
- amounts, unless otherwise specified, apply to all insurance coverages required by:
  - Part II, Chapter 5: Property and Liability Insurance, Section 501.03: Catastrophic Risk Insurance; and
  - Part II, Chapter 5: Property and Liability Insurance, Section 501.04: Liability Insurance;
- for the peril of wind/hail (unrelated to a catastrophic peril), must not exceed 3% of the insurable Property value; and
- for all other perils, must comply with the following table.

If the insurable value is...	The maximum deductible amount per occurrence is...
Less than $5 million	$25,000
Equal to or greater than $5 million, but less than $50 million	$50,000
Equal to or greater than $50 million, but less than $100 million	$100,000
Equal to or greater than $100 million	$250,000

Guidance

100% coinsurance with the Agreed Value endorsement is acceptable. Renewal of the Agreed Value endorsement

- is not automatic, and
- must be confirmed at each renewal.

You should:

- assess the Borrower's ability to pay any deductible, even compliant ones:
  - before accepting any deductibles; and
  - throughout the policy term;
- determine the high deductible financial exposure by considering total out of pocket expenses rather than only the difference between the
  - maximum allowable deductible, and
  - requested/actual deductible; and
- if insurance coverage is provided on a management company's or unrelated entities' master property program, then only use the Borrower's owned or related properties to determine the maximum deductible.

A margin clause:

- should not be used to determine compliant property insurance limits; and
- may contain provisions limiting additional coverage availability.

501.02B Aggregate Deductibles

Guidance

You may accept a Property and Liability policy that includes aggregate deductibles. The aggregate deductible may be higher than the maximum deductible required per Part II, Chapter 5: Property and Liability Insurance, Section 501.02A: Minimum Coverage Amounts.

Requirements

If you accept a Property and Liability policy that includes aggregate deductibles, you must:

- confirm the aggregate deductible amount is fully funded and held by:

- the Borrower in a segregated bank account;
- you in the Tax and Insurance escrow; or
- a third party for the Borrower's benefit; and

- require any claim checks to:
  - list you as payee c/o Fannie Mae; and
  - be considered insurance loss proceeds per the Loan Documents.

501.02C Business Income (including Rental Value) Insurance

☑ Requirements

You must ensure:

- each Property has business income insurance (including rental value insurance), for all required coverages, including
  - ordinance or law (Coverage D),
  - windstorm,
  - flood,
  - earthquake, and
  - terrorism, etc.;
- coverage is based on:
  - Actual Loss Sustained for 12 months; or
  - the most recent annual reported (or annualized if annual financial are unavailable):
    - EGI; or
    - NOI plus continuing expenses, with a completed business income worksheet submitted by the Borrower's agent/broker;
- the maximum deductible for business income insurance does not exceed the greater of
  - the maximum deductible for the property insurance policy, or
  - a waiting period up to 72 hours; and
- coverage for a Mortgage Loan with a UPB of $25 million or more

includes a 90-day Extended Period of Indemnity option.

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 • 100% of the Property's insurable value, 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 Property's insurable value.

Coverages	If ordinance or law insurance is required, you must ensure the Property has all of the following…
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 • $10 million, and • the damage threshold of the local building ordinance is 75%	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.

501.02E Boiler and Machinery / Equipment / Mechanical Breakdown Insurance

Requirements

You must ensure:

- a Property with any high-pressure, centralized HVAC boiler, water heater, or other vessel that is in operation and regulated by the state or municipality where the Property is located has full boiler and machinery coverage; and
- the coverage equals at least 100% of the insurable value of each building housing the equipment.

501.02F Builder's Risk Insurance

Requirements

You must ensure:

- if property insurance coverage is excluded during construction or significant renovation or restoration, the Property has builder's risk insurance during such activity; and
- the coverage equals at least 100% of the completed value, on a non-reporting basis.

501.02G Fidelity Bond / Crime Insurance

Requirements

You must ensure:

- each Property owned by a Cooperative Organization has fidelity bond/crime insurance in an amount covering scheduled Cooperative Maintenance Fees for at least 3 months; and
- the fidelity bond/crime insurance deductible does not exceed $25,000.

501.02H Regional Perils Insurance

Requirements

You must ensure:

- if a Property is in an area prone to geological phenomena, the property insurance coverage includes those phenomena; and

- the coverage equals 100% of the insurable value.

Guidance

Examples of geological phenomena include

- sinkhole,
- mine subsidence,
- volcanic eruption, and
- avalanche.

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.

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).

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...
• 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;
- 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.

501.04 Liability Insurance

Requirements

You must ensure each Property and Borrower is covered, without exclusions, throughout the Mortgage Loan term by liability insurance for

- bodily injury,
- Property damage, and
- personal injury.

501.04A Commercial General Liability Insurance

Requirements

You must ensure the general liability insurance coverage is at least

- $1 million per occurrence/$2 million general aggregate limit, plus
- excess/umbrella insurance as follows:

If the number of stories in the building is...	The minimum excess/umbrella insurance coverage is...
1 - 4	$2 million
5 - 10	$5 million
11 - 20	$10 million
Over 20	$20 million

The maximum deductibles:

- apply to
  - general liability,
  - umbrella/excess liability, and
  - professional liability; and
- must be based on the Property's total insurable values of the Property insurance policy as follows:

If the insurable value is...	The maximum deductible amount per occurrence is...
Less than $5 million	$50,000
Equal to or greater than $5 million, but less than $50 million	$100,000
Equal to or greater than $50 million, but less than $100 million	$150,000
Equal to or greater than $100 million	$275,000

Guidance

You may satisfy the insurance coverage requirements:

- with any combination of primary liability insurance and excess/umbrella insurance coverage, provided the aggregate

- coverage meets the required minimum limits; and
- for excess/umbrella insurance, when the coverage limit meets the requirement for the location with the most stories.

You should ensure that any liability policy does not contain exclusions for normal coverage that are normal and customary in the standard liability form, such as

- assault and battery,
- animal attacks, and
- firearms, etc.

The maximum deductible amount, per occurrence, is the combined deductible for both the

- underlying general or professional liability, and
- excess/umbrella liability.

For example, if the Borrower's total insurable value is $45 million, then the maximum deductible is $100,000 combined for the underlying liability and excess/umbrella liability in any combination (e.g., $75,000 deductible/self-insured retention on the general liability and $25,000 on the excess/umbrella liability).

501.04B Professional Liability Insurance

☑ Requirements

If a Seniors Housing Property provides any level of healthcare, you must ensure the:

- Property has professional liability insurance covering
  - professional errors and omissions,
  - medical malpractice, and
  - all types of abuse; and
- coverage is at least
  - $1 million per occurrence/$2 million general aggregate limit, plus
  - excess/umbrella insurance as follows:

If the number of licensed beds is...	The minimum excess/umbrella insurance coverage is...
1 - 100	$2 million
101 - 500	$5 million
501 - 1,000	$10 million
Over 1,000	$20 million

You must ensure:

- for a Property with Assisted Living beds, Independent Living beds are not counted when determining the minimum coverage limit;
- when general liability insurance and professional liability insurance coverages are combined under an excess/umbrella insurance policy, the coverage meets the higher minimum limit of the 2 underlying coverages; and
- the maximum deductible for professional liability insurance does not exceed the applicable maximum amount per Part II, Chapter 5: Property and Liability Insurance, Section 501.04A: Commercial General Liability Insurance.

Guidance

When using a claims-made policy, you should consider if an adequate “retroactive date” is in place providing coverage for acts that occurred before a specified date – usually before the effective date of the current policy. A retroactive date of 3 - 5 years before the current policy’s effective date is common.

If the Borrower changes carriers during the Mortgage Loan term, the addition of tail coverage or an extended reporting period endorsement, extending coverage after the cancellation or termination of a claims-made policy, is important to ensure no lapse in coverage occurs.

You may satisfy the coverage requirements:

- with any combination of primary liability insurance and excess/umbrella insurance coverage, provided the aggregate coverage meets the required minimum limits; and
- for excess/umbrella insurance when the coverage limit meets the requirement for the location with the most beds.

501.04C Workers' Compensation Insurance

☑ Requirements

You must ensure the:

- Property has workers' compensation and employer's liability insurance (including terrorism coverage), if required in the Property's state; and
- coverage equals or exceeds the:
  - statutory limits for injured employees; plus
  - greatest of:
    - employer's liability limits of $1 million per occurrence for bodily injury;
    - $1 million per occurrence and $1 million aggregate for employee disease; or
    - any underlying limit required by the excess/umbrella insurance carrier.

501.04D Directors' and Officers' Liability Insurance

☑ Requirements

You must ensure each Property owned by a Cooperative Organization has:

- directors' and officers' liability insurance; and
- coverage equal to at least $1 million per occurrence.

501.04E Commercial Auto Liability Insurance

☑ Requirements

You must ensure the Borrower has commercial auto liability insurance that:

- covers any motor vehicles that are:
  - owned, leased, or hired by the Borrower; or
  - used by anyone for business on behalf of the Borrower or the Property;

- includes personal injury protection required by the Property's state; and
- has coverage equaling the greater of
  - $1 million per occurrence, or
  - any underlying limit required by the excess/umbrella insurance carrier.

Guidance

As a secured real estate lender, you would not be named in a lawsuit alleging automobile negligence by an employee of the Borrower or management company. However, if a lawsuit involving negligence is successful, failure to maintain adequate insurance may result in a lien against the Property.

Section 502 Environmental Matters

Guidance

Any environmental conditions or risks impacting the Property should be fully understood and considered in the underwriting.

502.01 Environmental Site Assessments

Requirements

You must:

- comply with the Environmental Due Diligence Requirements (Form 4251), including obtaining a Phase I Environmental Site Assessment (Phase I ESA) of the entire Property;
- ensure the Phase I ESA:
  - is performed per the instructions in Form 4251, including meeting the current requirements of ASTM E1527;
  - is prepared by an environmental professional as that term is defined in 40 C.F.R. § 312.10 (an Environmental Professional);
  - identifies all environmental conditions and risks that may potentially impact
    - resident safety,

- marketability, or
- Property value; and

- clearly identifies how to properly mitigate those conditions and risks, including where applicable:
  - the Environmental Professional's recommendations regarding additional investigation, or requirements of government authority or regulatory agency; or
  - action to remediate or abate any Recognized Environmental Condition (REC)/Controlled Recognized Environmental Condition (CREC), as those terms are defined in ASTM E1527; and

- obtain Fannie Mae's approval before Rate Lock if the Phase I ESA identified any RECs/CRECs.

Guidance

You may rely on a preliminary or draft Phase I ESA to obtain a Rate Lock and Commitment.

502.02 Lender's Responsibilities

Requirements

You must:

- Obtain all investigations recommended or indicated by the Phase I ESA.
- Conduct a thorough review and analysis of the Phase I ESA.
- Provide the Environmental Professional with all available prior Phase I ESAs, investigations, and any relevant and readily available environmental materials.
- Provide the Appraiser with any documentation from the Phase I ESA necessary to accurately assess the Property's value.
- Identify if the Property's state has an environmental Super Lien Statute and, if so, confirm Property conditions are unlikely to result in the imposition of a super lien having priority over the Security Instrument.
- Disclose to Fannie Mae your knowledge of any actual or suspected

environmental conditions affecting the Property, whether or not disclosed in the Phase I ESA.

- Ensure any required Operations and Maintenance Plans (O&M Plans) are obtained and located on the site throughout the Mortgage Loan term.
- Assess the Borrower's ability to carry out any O&M Plan.
- Not Deliver a Mortgage Loan if the Borrower or its agents are not financially or organizationally capable of satisfying the requirements of the O&M Plan.
- Evaluate the potential risk of loss and liability to the Property, the Borrower, you, or Fannie Mae posed by any
  - REC/CREC,
  - Business Environmental Risk, or
  - other environmental condition, whether or not disclosed in the Phase I ESA.

If you become aware of any REC/CREC, you must:

- Obtain a Remediation Plan from the Borrower that
  - is prepared by an Environmental Professional, as required by Form 4251,
  - will protect the health and safety of the residents and bring the Property into regulatory compliance, and
  - includes a cost estimate and schedule for completing the work.
- Add the estimated cost of the Remediation Plan to the Completion/Repair Escrow requirement of the Loan Documents.

Guidance

The amount funded into the Completion/Repair Escrow on the Mortgage Loan Origination Date should be at least 125% of the estimated cost of the Remediation Plan.

502.03 Environmental Indemnity Agreement

Requirements

You must:

- consider revisions to the Environmental Indemnity Agreement (Form 6085) to protect you and Fannie Mae from liability associated with any
  - REC/CREC (including the cost to investigate/remediate any such condition), and
  - violation of Environmental Laws by the Borrower;
- document your evaluation of potential revisions, including at a minimum, whether the following revisions are appropriate:
  - additional representation and warranty where the Borrower disclaims responsibility for any REC/CREC, if appropriate and accurate; and
  - additional covenant(s) requiring
    - implementation of the Remediation Plan,
    - compliance with any Environmental Activity and Use Limitations and/or institutional or engineering controls, and
    - maintenance of Borrower eligibility for applicable liability protection status;
- specifically identifying any liability associated with the REC/CREC in the indemnification provisions; and
- other required terms and conditions based on Fannie Mae environmental counsel review.

Section 503 Seismic Risk

503.01 Seismic Hazard and Risk Factors

☑ Requirements

You must:

- assess the seismic risk before Rate Lock by analyzing the PGA at the Property's location;
- determine if the Property has an acceptable level of seismic risk;
- complete Form 4099.C if the Property is located in a High Seismic Risk area;

- obtain a Seismic Risk Assessment (SRA) if a Structural Risk Factor is identified per Form 4099.C; and
- not Deliver a Mortgage Loan if the Property has
  - a PGA equal to or greater than 0.15g, and
  - 1 of these Structural Risk Factors:
    - an unreinforced masonry building that has not been seismically retrofitted; or
    - a building constructed on a slope with an angle exceeding 30 degrees (a 50% slope).

Guidance

After you Deliver the Mortgage Loan, no additional seismic risk evaluation is needed.

503.02 Seismic Risk Assessment (SRA)

Requirements

You must:

- obtain a Level 1 SRA dated within 12 months before the Commitment Date for any Property with one of the Structural Risk Factors listed in Form 4099.C; and
- ensure the SRA:
  - meets the ASTM seismic standards (ASTM E2026 – Standard Guide for Seismic Risk Assessment of Buildings and ASTM E2557 – Standard Practice for Probable Maximum Loss (PML) Evaluations for Earthquake Due Diligence Assessments);
  - includes estimates for the Scenario Expected Loss (SEL) and the Scenario Upper Loss (SUL);
  - uses a 10% probability of exceedance in a 50-year period;
  - meets ASTM seismic standard professional qualifications; and
  - complies with Form 4099.C, including
    - structured data per Seismic Risk Assessment Data Supplement (Form 4093), and
    - a report narrative.

Guidance

For a Small Mortgage Loan:

- the SRA field investigation may be performed by a PCA consultant or field observer if that professional has at least 2 years of experience performing seismic risk assessments; and
- a new SRA is not required for Supplemental Mortgage Loans; you may rely on the original underwriting seismic analysis.

503.03 Acceptable Levels of Seismic Risk

Guidance

The Property's SEL percentage and the building stability assessment determines if the seismic risk is acceptable.

Requirements

You must:

- determine if the Property's seismic risk is acceptable by confirming all income-producing Improvements or any non-income producing Improvements that support amenities:
  - comply with Part II, Chapter 5: Property and Liability Insurance, Section 503.03: Acceptable Levels of Seismic Risk;
  - have an SEL of 20% or less; and
  - meet the current building stability requirements of ASTM E2026; and
- not Deliver a Mortgage Loan secured by a Property having any Improvements with an SEL greater than 40%.

Guidance

Your analysis should include:

- a Level 1 SRA, including Appendix X4 (ASTM E2557);
- your analysis of the seismic issues and recommendation, describing the:

- severity and pervasiveness of the conditions driving the SEL and stability issues;
- risks presented to
  - building stability,
  - building damageability,
  - site stability, and
  - life safety; and
- recommended retrofit or remediation requirements;

- a retrofit letter or the Borrower's retrofit plan, including the
  - timetable, and
  - cost estimate;
- Form 4099.C; and
- a minimum of 6 Property photos, including
  - photos of areas significant to the seismic calculation or stability issue, and
  - elevation views of any Improvements having
    - an SEL over 20%, or
    - a stability issue.

503.04 Seismic Retrofit Ordinances

Requirements

You must ensure the SRA describes a proposed retrofit plan, including associated costs, if a Property must be retrofitted under any

- law,
- regulation, or
- ordinance.

503.05 Seismic Risk Mitigants

Requirements

For any Property where any Improvements have an SEL greater than 20% or a building stability issue, you must contact Multifamily Insurance to determine acceptable mitigants for Mortgage Loan Delivery, including:

- performing a seismic retrofit sufficient to resolve all stability issues and reduce the SEL of all Improvements to 20% or below; and
- obtaining earthquake insurance coverage per Part II, Chapter 5: Property and Liability Insurance, Section 501.03D: Earthquake Insurance.

Earthquake insurance does not mitigate seismic risk.