Fannie Mae®

Multifamily Selling and Servicing Guide

Effective as of December 31, 2021

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Summary of Changes

HIGHLIGHTS
Effective December 31, 2021, the process for documenting a reduction in the amount of excess flood insurance or difference in conditions insurance was updated.

Primary Changes

If you permitted a reduction in the amount of excess flood insurance or difference in conditions (DIC) insurance, your analysis and related documentation to support the economic feasibility and the amount of the reduction must be:

- included in your Servicing File; and
- submitted in the MAMP by creating a “Delegated – Insurance” entry for “Catastrophic Event”, and subtype “Flood” in the “Borrower Requests” section.

Questions

For questions, please contact

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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

Each Property must be covered by compliant property insurance and liability insurance for the term of the Mortgage Loan. If the Borrower fails to maintain any required insurance on a Property, you must obtain the required coverage.

All insurance policies must:

- list the Borrower as a named insured;
- be written on a per occurrence basis, except for earthquake insurance and professional liability Insurance, which may be written on a per occurrence or claims-made basis;
- include a provision requiring the carrier to notify each 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, unless the Loan Documents expressly require the Borrower to notify the Lender promptly of any notice of cancellation it receives;
- except for professional liability insurance, name Fannie Mae as Additional Insured on all liability insurance and excess/umbrella insurance; and
- contain a mortgagee clause and loss payable clause for the benefit of Fannie Mae, its successors, and assigns.

All property insurance policies must use Replacement Cost valuation, however, coverage for roofs may use Actual Cash Value or Replacement Cost valuation.

Guidance

All requirements apply to the review you perform before closing as well as to the Servicer's annual compliance review.

You are expected to obtain the advance cancellation notice for the benefit of each Mortgagee and Additional Insured from the insurance carriers whenever possible. When that is not possible, you should ensure that the final Loan Documents have not been modified in any manner that limits

- the Borrower's obligation to provide prompt notice to the Lender of any notice of cancellation it receives from an insurance carrier, or
- any recourse liability of the Borrower or any Guarantor as a result of any failure to maintain all insurance coverages required by the Loan Documents.

Below is an acceptable mortgagee clause.

> 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 you are not able to obtain the advance cancellation notice from any insurance carrier, you must retain evidence of your attempts to obtain such notice provisions in your Servicing File.

501.01B Blanket and Other Policies Covering Multiple Properties

Requirements

The coverage provided by a blanket policy must be as good as, or better than, a single property insurance policy. The Property must be listed and identified in the policy or associated schedules.

Guidance

A blanket policy includes

- blanket policies,
- blanket programs,

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

Blanket policies are acceptable as long as

- 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 the following:

- Are the required coverages adequate for the subject property or properties?
- 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, 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:

- a significant savings in premium when a Borrower adds the Property to an existing policy; or

- 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 are expected to evaluate the insurance administrator, considering factors such as the acceptability of its business practices, possible payment of claim by the administrator, years in business, etc. This evaluation is in addition to the other analysis expected for blanket policies.

Operating Procedures

You must document your analysis of any blanket policy in your Servicing File.

501.01C Insurance Carrier Rating

Requirements

All property and liability insurance carriers for new policies must:

- if rated by A.M. Best Company, have a
  - general policyholder rating of A- or better, and
  - financial size category of VI or better; or
- if rated by Demotech, Inc., have a
  - Financial Stability Rating of A or better, and
  - policyholder surplus of at least $40 million.

For any existing insurance policy (at origination or afterward), the carrier must:

- if rated by A.M. Best Company, have a
  - general policyholder rating of B++ or better, and
  - comply with the rating requirements for new policies at renewal; or
- If rated by Demotech, Inc., comply with the rating requirements for new policies.

This rating requirement does not apply to the following coverages:

- state wind pools or state funds, if they are the only coverages that can be obtained for a Property; or

- flood insurance issued by the National Flood Insurance Program (NFIP) or written by companies approved under the NFIP's Write Your Own program.

Per the Loan Documents, you must require the Borrower to immediately obtain replacement coverage with a compliant carrier, even if the policy has not yet expired, if a carrier is downgraded below

- B++, if rated by A.M. Best Company, or
- A, if rated by Demotech, Inc.

Guidance

A new policy is one that is not already in force, and is 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.

Operating Procedures

If a carrier providing an existing insurance policy has an A.M. Best Company rating below A-, you must retain evidence of the insurance carrier's rating in your Servicing File until the policy is renewed. You must also monitor it on a quarterly basis to confirm that the rating is not downgraded below B++.

501.01D 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; and
- the shorter-term is not because of non-renewal or cancellation by the carrier.

501.01E Payment of Premium

Requirements

Premiums for all required insurance policies must either be:

- paid in full annually; or
- payable in installments, for which you have receipts confirming timely payment.

Premium financing is permitted if the financing agreement has no negative impact on you, Fannie Mae, or the Mortgage Loan collateral, and does not include any conditions that could prevent you or Fannie Mae from receiving the insurance proceeds. If the Borrower finances premiums, you must review a copy of the financing agreement and confirm that timely payment of each premium has been made.

Guidance

You should attempt to reinstate the annual payment of premiums at renewal of any policy.

Any financing agreement should include a requirement that you receive a notice of cancellation for any nonpayment of premium.

Operating Procedures

For Mortgage Loans where no insurance escrows are being collected, you must obtain evidence annually that all policies have been paid in full.

If the Borrower finances premiums, you must retain a copy of the financing agreement in your Servicing File. You must also keep receipts confirming timely payments.

501.01F Evidence of Insurance

Requirements

You must have temporary or permanent evidence of insurance at the closing of the Mortgage Loan and by each renewal date.

You must have permanent evidence of insurance within 90 days of delivering the Mortgage Loan to Fannie Mae and each renewal date.

Guidance

For temporary evidence of insurance, the following forms are acceptable:

- 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;
- MBA Evidence of Insurance – Commercial Property Form; and
- if an ACORD certificate is not available, a joint letter from the Borrower and its licensed insurance broker/agent certifying that all coverages, terms, and conditions meet the requirements.

For permanent evidence of insurance, the following forms are acceptable:

- An original or duplicate copy of the insurance policy.
- For Properties securing Mortgage Loans with a UPB of $10 million or less, the MBA Evidence of Insurance – Commercial Property Form.
- For Properties securing a Mortgage Loan with a UPB in excess of $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; and
  - state that all policies follow the same terms, conditions, and exclusions as the primary policy, with any differences specified.
- For NFIP flood insurance, 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.

If an MBA Evidence of Insurance - Commercial Property Form is used, it should:

- be the most recent version or, if applicable, the state-approved form;
- be completed in its entirety;
- have an original signature of an individual authorized to execute the Evidence of Insurance on behalf of the insurance carriers issuing each policy; and
- in states where the form is filed and approved, be on the appropriate

state form.

Some insurance carriers use boilerplate policies that do not change from year to year. In such cases, 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.

Operating Procedures

Permanent evidence must be retained in your Servicing File. Policies must be collected annually.

501.01G Insurance Compliance and Data

Operating Procedures

You must complete an annual insurance compliance checklist, including the following information for all insurance coverages, and place it in your Servicing File:

- name of carrier, all insured parties, and the Borrower;
- coverage amount;
- deductible amount(s);
- policy term;
- description of property insured; and
- coinsurance percentage, if applicable.

501.01H Post Closing Insurance Exceptions

Requirements

You must determine compliance with this Section on an annual basis. Any request for an exception to the insurance requirements after origination and delivery of the Mortgage Loan must be submitted on the Multifamily Exception Review Form – Insurance (Form 4638) through the MAMP. All supporting documentation must be included with the submission.

Guidance

Insurance exceptions granted by Fannie Mae are for the entire term of the Mortgage Loan, unless otherwise specified in the approval.

501.02 Property Insurance

501.02A Minimum Coverage Amounts

Requirements

Each Property must have property insurance throughout the term of the Mortgage Loan. Coverage must be written on a Special Causes of Loss Form.

The coverage amount must be at least

- 100% of estimated insurable value for single-building Properties, and
- 90% of estimated insurable value for multiple-building Properties.

Coinsurance cannot exceed 90%.

The maximum deductible amount is based on the total insurable values of the Property insurance policy.

If the insurable value is…	The maximum deductible amount per occurrence is…
Less than $5 million	$15,000
Equal to or greater than $5 million, but less than $50 million	$25,000
Equal to or greater than $50 million, but less than $100 million	$100,000
Equal to or greater than $100 million	$250,000

These deductible amounts 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, unless a different amount is specified.

Guidance

100% coinsurance with the Agreed Value endorsement is acceptable. Renewal of the Agreed Value endorsement is not automatic.

501.02B Business Income (including Rental Value) Insurance

Requirements

Each Property must have business income insurance (including rental value insurance), covering all perils, including windstorm, flood, earthquake, and terrorism.

Coverage must be based on either

- Actual Loss Sustained for 12 months, or
- Effective Gross Income for the most recent annual reporting period.

The maximum deductible for business income insurance cannot exceed the greater of the maximum deductible for the property insurance policy or a waiting period of up to 72 hours.

Coverage for a Mortgage Loan with a UPB of $25 million or more must include a 90-day Extended Period of Indemnity option.

Guidance

If a type of coverage is required but is excluded by the property insurance policy (e.g., ordinance or law), and the Borrower purchases the coverage separately, or adds it to the property insurance policy, you should confirm that business income insurance is also provided for the covered peril in order to satisfy the requirement.

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.

501.02D Boiler and Machinery / Equipment / Mechanical Breakdown Insurance

Requirements

Each Property located in a state that regulates centralized HVAC boiler, water heater, or other high-pressure vessels must have boiler and machinery insurance if it has such equipment.

The coverage amount must be at least 100% of the insurable value of each building that houses the equipment.

501.02E Builder's Risk Insurance

Requirements

If property insurance coverage is excluded during construction or significant renovation or restoration, the Property must have builder's risk insurance during such activity.

The coverage amount must be at least 100% of the completed value, on a non-reporting basis.

501.02F Fidelity Bond / Crime Insurance

Requirements

Each Property owned by a Cooperative Organization must have fidelity bond/crime insurance in an amount covering scheduled Cooperative Maintenance Fees for at least 3 months.

The deductible for fidelity bond/crime insurance may not exceed $25,000.

501.02G Regional Perils Insurance

Requirements

If a Property is in an area prone to geological phenomena, the property insurance coverage must include those phenomena.

The coverage amount must be 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

If a Property is in an area prone to Catastrophic Events, it must have the coverages required by this Section 501.03.

501.03B Windstorm Insurance

Requirements

The Property must have separate windstorm insurance if the Special Causes of Loss Form excludes any type of wind-related Catastrophic Event.

The coverage amount must be at least 100% of the insurable value. This valuation may not rely solely on Probable Maximum Loss (PML) calculations.

The deductible amount may not exceed the greater of

- 10% of the insurable value,
- the applicable maximum amount in Part II, Chapter 5: Property and Liability Insurance, Section 501.02A: Minimum Coverage Amounts, or
- for the business income insurance (including rental value insurance), 15 days of income or equivalent.

Guidance

A state insurance plan, state-managed windstorm, or beach erosion insurance pool is acceptable for catastrophic windstorm coverage (i.e., not for non-catastrophic windstorm or other perils), if no other catastrophic windstorm coverage is available.

501.03C Flood Insurance

Requirements

The Property must have flood insurance if any income-producing Improvements or any non-income producing Improvements that support amenities are located in an SFHA Zone A or Zone V.

The coverage amount must be 100% of the insurable value of

- the first 2 floors above grade and any Improvements below grade, plus
- all Fixtures and Goods located on the first 2 floors above grade and/or below grade (as defined in the Security Instrument).

The deductible amount may not exceed the greater of

- 5% of the insurable value of the Property,
- the applicable maximum amount in Part II, Chapter 5: Property and Liability Insurance, Section 501.02A: Minimum Coverage Amounts, or

- for business income insurance (including rental value insurance), 15 days or equivalent.

If the coverage available under the NFIP is not sufficient to meet the requirements set forth above, then the Borrower must have excess flood insurance or difference in conditions (DIC) insurance that either

- covers the difference, up to the required coverage amount, or
- if the required coverage amount is not economically feasible, covers an amount that you determine is reasonable, given the exposure.

During the Letter of Map Amendment (LoMA) process only NFIP insurance is required. The maximum term for NFIP insurance during the LoMA process is 12 months.

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

Guidance

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. Improvements that support amenities include structures such as clubhouses and pool houses. Improvements that do not support amenities are structures such as sheds, pump houses, and storage buildings. Business income insurance is not required for non-income producing Improvements.

Keep in mind that conditions may change over time and flood zones may be remapped. In certain cases, you or Fannie Mae may require flood insurance for Improvements outside of an SFHA Zone A or V, but within an area designated by FEMA as Zone X or Zone D (for example, if a Property is in an area subject to flooding due to storm water, or within close proximity to an SFHA boundary).

When determining whether excess flood insurance or DIC insurance is economically feasible, you may consider a DSCR reduction of 10 or more basis points as a reasonable measure or guide.

Before determining a lesser amount of excess flood insurance or DIC Insurance, or not requiring such coverage, you should have the Borrower provide you with at least 3 quotes or declination letters, and determine whether the Borrower is attempting to avoid purchasing coverage by applying to companies that do not write flood insurance or give artificially high quotes. If you are provided with a combination of quotes and declinations, quotes should be used to determine feasibility of coverage, and a limit of coverage that is economically feasible should be secured.

An acceptable deductible for DIC insurance is the coverage limit of the underlying NFIP policy.

You should obtain flood zone determinations from qualified third-party flood-zone determination firms, and exercise care and sound judgment when selecting the firm. You should require the determination firm, and any monitoring company (if different), to

- notify you whenever flood insurance is or becomes required, and
- continue monitoring after any servicing transfer.

Operating Procedures

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

You are required to complete the most recent version of the Standard Flood Hazard Determination form issued by FEMA to determine whether any of the Improvements are located in an SFHA. You must keep a completed copy of this form in your Servicing File, including a signed copy of the Notice to Borrower of Special Flood Hazard and Federal Assistance (included in the Flood Determination Certificate).

If you permitted a reduction in the amount of excess flood insurance or DIC insurance, your ~~Servicing File must include your~~ analysis and related documentation ~~to support~~supporting the economic feasibility and the amount of the reduction~~.~~ must be

- included in your Servicing File, and
- submitted via the MAMP.

501.03D Earthquake Insurance

Requirements

The Property must have earthquake insurance if required by Fannie Mae based on the Seismic Risk Assessment.

The coverage amount must be at least 100% of the insurable value.

The deductible amount may not exceed the greater of

- 10% of the insurable value, or

- the applicable maximum amount in Part II, Chapter 5: Property and Liability Insurance, Section 501.02A: Minimum Coverage Amounts.

501.03E Terrorism Insurance

Requirements

Each Property must have terrorism insurance for property damage/casualty and liability exposures, unless

- it secures a Mortgage Loan with a UPB of less than $25 million, and
- you performed a risk assessment, and it indicated no or low terrorism risk.

The coverage amount must be at least 100% of the insurable value of the Improvements.

The deductible amount may not exceed the greater of

- 20% of the insurable value, or
- the applicable maximum amount in Part II, Chapter 5: Property and Liability Insurance, Section 501.02A: Minimum Coverage Amounts.

Guidance

Your risk assessment should consider the Property location in relation to potential terrorist targets, such as tourist attractions, mass transportation facilities, urban areas, and government buildings. You should also consider concentrations of risk and overall exposures.

Operating Procedures

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

501.04 Liability Insurance

Requirements

Each Property and Borrower must be covered by liability insurance for bodily injury, Property damage, and personal injury throughout the term of the Mortgage Loan.

501.04A Commercial General Liability Insurance

Requirements

The general liability insurance coverage amount must be 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	$25 million

The maximum deductible amount is based on the total insurable values of the Property insurance policy.

If the insurable value is...	The maximum deductible amount per occurrence is...
Less than $5 million	$40,000
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	$125,000
Equal to or greater than $100 million	$275,000

You may satisfy the maximum deductible amounts by any combination of the deductibles on the primary liability insurance and excess/umbrella insurance policies.

The maximum deductibles apply to all liability insurance.

Guidance

You may satisfy the insurance coverage requirements with any combination of primary liability insurance and excess/umbrella insurance coverage, so long as they add up to the sum of the required minimum limits.

You may satisfy the insurance coverage requirements for excess/umbrella insurance when the coverage limit meets the requirement for the location with the most stories.

501.04B Professional Liability Insurance

Requirements

If any level of healthcare is provided at a Seniors Housing Property, it must have professional liability insurance covering professional errors and omissions, medical malpractice, and all types of abuse.

The coverage amount must be 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	$25 million

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 required coverage is the higher minimum limit of the 2 underlying coverages.

The maximum deductible for professional liability insurance must not exceed the applicable maximum amount in 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 whether an adequate “retroactive date” is in place. A retroactive date provides coverage for acts that took place 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 term of the Mortgage Loan, the addition of tail coverage or an extended reporting period endorsement, which extends coverage after the cancellation or termination of a claims-made policy, is important. These provisions help ensure that there is no lapse in coverage.

You may satisfy the insurance coverage requirements with any combination of primary liability insurance and excess/umbrella insurance coverage, as long as they add up to the sum of the required minimum limits.

You may satisfy the insurance coverage requirements for excess/umbrella insurance when the limit meets the requirement for the covered location with the most beds.

501.04C Risk Retention Groups and Captive Insurance

☑ Requirements

Only a Seniors Housing Property may use liability insurance from a Risk Retention Group or a Captive Insurer. Captive Insurance is only acceptable for

- professional liability insurance, and
- general liability insurance when combined with professional liability insurance.

Any Risk Retention Group or Captive Insurer must have a rating of at least

- A- / VI from A.M. Best Company, or
- A from Demotech, Inc., with policyholder surplus of at least $40 million.

You must get an annual report on the Captive Insurer from an independent firm that is:

- familiar with captive domiciles, operations, and insurance structures;
- experienced analyzing captive actuarial studies and audited financial statements; and
- unrelated to the Captive Insurer, you, the Borrower, Guarantor, or any of its sponsors or Principals.

The firm's report must include:

- an analysis of the Captive Insurer's annual independent actuarial study;
- an actuarial memorandum/reserve analysis provided by the Captive Insurer;
- a review of the annual independent audited financial statements for the Captive Insurer; and
- a conclusion regarding the Captive Insurer's operations and financial viability.

Guidance

Captive Insurance and similar arrangements have lower capitalization requirements than traditional insurance companies, and are usually not rated by a recognized rating agency.

In order to be rated, a Captive Insurer will typically provide the following to a rating provider:

- detailed updated accrual runs;
- updated loss history (minimum 5 years, brief summary, and detailed list);
- current updated audited financial statements for the past 2 years:
  - for the captive, audited financials typically are on a stand-alone basis (if audited are not available, then unaudited financials are acceptable); and
  - for the parent company's, the financials should be on a consolidated basis;
- financials, audited or unaudited, from the captive and parent company for the most recent quarter;
- description of any changes from previous years with applicable updated resumes of all officers;
- description of any reinsurance and/or fronting company, if applicable;
- description of internal claims management procedures;
- status of market update;
- description of funding sources;
- business plan;
- projected volume over the next year;
- actuarial memorandum/reserve analysis as provided by the Captive

Insurer;

- state insurance examination report or, if a report is not available,
  - date of examination,
  - description of any adverse findings, and
  - steps taken to remediate; and
- exposure to the Captive Insurer or Risk Retention Group, based on the UPB of loans made to date.

501.04D Workers' Compensation Insurance

☑ Requirements

The Property must have workers' compensation and employer's liability insurance (including terrorism coverage), if required in the state where the Property is located.

The coverage amount must equal or exceed:

- the statutory limits for injured employees; plus
- the greater 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.

501.04E Directors' and Officers' Liability Insurance

☑ Requirements

Each Property owned by a Cooperative Organization must have directors' and officers' liability insurance.

The coverage amount must be at least $1 million per occurrence.

501.04F Commercial Auto Liability Insurance

☑ Requirements

The Borrower must have commercial auto liability insurance for any motor vehicles that are

- owned or hired by the Borrower, or
- used by anyone for business on behalf of the Borrower or the Property.

The coverage must include personal injury protection required by the state where the Property is located.

The coverage amount must be the greater of

- $1 million per occurrence, or
- any underlying limit required by the excess/umbrella insurance carrier.

501.05 Small Loans

Requirements

All insurance requirements of this Chapter apply to Small Mortgage Loans, except as noted in this Section.

501.05A Permanent Evidence

Guidance

If you are unable to obtain the original or a duplicate copy of the insurance policy or the MBA Evidence of Insurance, the Borrower's insurance agent or broker may deliver a written statement that it has reviewed the policy and confirmed that it meets the following requirements:

- Named insured is listed as Fannie Mae and the Borrower.
- Mortgagee Clause meets Fannie Mae's requirements.
- Each insurance carrier has a compliant A.M. Best Company or Demotech, Inc. rating.
- Policy term is 12 months.
- Cancellation Clause meets Fannie Mae's requirements.
- Special Coverage Form applies.
- No Coinsurance or, if there is Coinsurance, an Agreed Value Endorsement is attached to the policy.
- Limits of insurance are included for all required coverages, including any sub-limits or other restrictions (such as catastrophic limits) that may differ from the standard coverage amount.

- A Statement of Values is included where applicable.
- Coverage is subject to Replacement Cost valuation.

501.05B Excess/Umbrella Insurance

Requirements

The minimum excess/umbrella insurance is $1 million if

- no building on the Property has more than 4 stories, and
- the Mortgage Loan has a UPB of $3 million or less.

501.05C Terrorism Insurance

Guidance

Terrorism insurance is not required for Small Mortgage Loans.

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), which include obtaining a Phase I Environmental Site Assessment (Phase I ESA) of the entire Property. The Phase I ESA must:

- be performed per the instructions in Form 4251, including meeting the current requirements of ASTM E1527;
- be prepared by an environmental professional as that term is defined in 40 C.F.R. § 312.10 (an Environmental Professional);
- identify all environmental conditions and risks that may potentially impact resident safety, marketability, or value of the Property; and
- clearly identify 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.

If the Phase I ESA identified any RECs/CRECs, you must obtain Fannie Mae's approval before Rate Lock.

Guidance

You may rely on a preliminary or draft Phase I ESA to obtain a 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 that is necessary to accurately assess the value of the Property.
- Identify whether the state where the Property is located has an environmental "super-lien" statute and, if so, confirm that conditions on the Property are not likely to result in the imposition of such a Lien.
- 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 that any required Operations and Maintenance Plans (O&M Plans) are obtained and located on the site throughout the loan term.
- Assess the Borrower's ability to carry out any O&M Plan. A Mortgage Loan is ineligible for purchase 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 any violation of Environmental Laws by the Borrower. You must 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;
- 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 terms and conditions as may be required based on Fannie Mae environmental counsel review.

Section 503 Seismic Risk

503.01 Seismic Hazard and Risk Factors

Guidance

Any seismic risk impacting the Property should be understood before the Commitment Date. Seismic risk is assessed by analyzing the PGA at the location of the Property.

After purchase of the Mortgage Loan, no additional seismic risk evaluation is required.

Requirements

Each Property must have an acceptable level of seismic risk.

A Mortgage Loan is ineligible for purchase 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).

If the Property is located in a High Seismic Risk area, you must complete Form 4099.C. If a Structural Risk Factor is present, you must also obtain a Seismic Risk Assessment (SRA).

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.

The SRA must:

- meet 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);
- include estimates for the Scenario Expected Loss (SEL) and the Scenario Upper Loss (SUL);
- use a 10% probability of exceedance in a 50-year period;
- meet ASTM seismic standard professional qualifications;
- include structured data per Seismic Risk Assessment Data Supplement (Form 4093); and
- include a report narrative.

Guidance

For Small Mortgage Loans, 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 of buildings.

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 SEL percentage of the Property and the building stability assessment will determine whether the seismic risk is acceptable.

Requirements

The Property's seismic risk is acceptable if all income-producing Improvements or any non-income producing Improvements that support amenities

- comply with this Section 503.03,
- have an SEL of 20% or less, and
- meet the current building stability requirements of ASTM E2026.

A Mortgage Loan is ineligible for purchase if it is secured by a Property that has 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 in detail
  - the severity and pervasiveness of the conditions driving the SEL and stability issues,
  - the risks presented to building stability, building damageability, site stability, and life safety, and
  - the recommended retrofit or remediation requirements;
- a retrofit letter or the Borrower's retrofit plan, timetable, and cost estimate;
- Form 4099.C; and
- a minimum of 6 Property photos, including
  - photos of those 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

If a Property is required to be retrofitted under any law, regulation, or ordinance,

- the SRA must describe a proposed retrofit plan, including associated costs, and
- the retrofit must be completed before the Commitment Date.

503.05 Seismic Risk Mitigants

Guidance

For any Property where any Improvements have an SEL greater than 20% or a building stability issue, you should consider the following to mitigate seismic risk:

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

Earthquake insurance does not mitigate building collapse risk.