

## ***Servicing Guide Announcement SVC-2014-15***

August 19, 2014

### **Updates to Project Insurance**

Fannie Mae is updating the project insurance requirements for PUDs, condos, and co-ops. The affected topics include:

- Amount of coverage
- Special endorsements
- Liability insurance
- Fidelity insurance
- Rent loss insurance

#### ***Effective Date***

Fannie Mae is providing additional flexibilities and insurance coverage requirements for PUD, condo, or co-op projects. The servicer may implement procedures to accommodate these changes immediately; however, these changes apply to all PUD, condo, or co-op projects with new policies or renewals of policies on or after November 1, 2014.

### **Amount of Coverage**

#### ***Servicing Guide, Part II, Section 204.02: Coverage for the Common Areas; Section 205.01: Amount of Coverage, and Section 206.01 Amount of Coverage***

For a PUD, condo, or co-op project, insurance must cover 100% of the insurable replacement cost of project improvements, including the individual units for condo and co-op projects. Fannie Mae is adding acceptable insurance policy coverage--Extended Replacement Cost, under which the insurer agrees to pay more than the property's insurable replacement cost. Fannie Mae will also continue to accept the following endorsements:

- Guaranteed Replacement Cost--the insurer agrees to replace the insurable property regardless of the cost. or
- Replacement Cost--the insurer agrees to pay up to 100% of the property's insurable replacement cost.

Fannie Mae is also clarifying that if a policy includes a coinsurance clause, and includes an Agreed Amount Endorsement or selection of the Agreed Value Option which waives the requirement for coinsurance, the policy coverage will be considered acceptable evidence that the 100% insurable replacement cost of the project improvements requirement has been met.

In addition, when a policy includes a coinsurance clause, but the coinsurance provision is not waived, the policy is still eligible if evidence acceptable to the servicer confirms that the amount of coverage is at least equal to 100% of the insurable replacement cost of the project improvements.

## Special Endorsements

### ***Servicing Guide*, Part II, Section 204.02: Coverage for the Common Areas; Section 205.02: Special Endorsements, and Section 206.02: Special Endorsements**

Fannie Mae will not require a Building Ordinance or Law Endorsement for PUD, condo, and co-op projects if the coverage required by the *Servicing Guide* is not obtainable in the insurance market available to the association.

## Liability Insurance

### ***Servicing Guide*, Part II, Section 401: Liability Insurance**

Fannie Mae will now require for all co-op projects minimum general liability coverage of \$1 million for bodily injury and property damage for any single occurrence. This coverage amount is the same as that required for all condo and PUD projects.

## Fidelity Insurance

### ***Servicing Guide*, Part II, Section 402: Fidelity Insurance**

Fannie Mae is removing the fidelity insurance requirements for PUDs, condos, and co-op properties if the coverage amount that would be required under the *Servicing Guide* is less than or equal to \$5,000.

When fidelity insurance is required, the servicer is permitted to accept a lesser amount of coverage if the servicer obtains evidence through a source acceptable to the servicer that the homeowners' association (HOA) or co-op corporation and any management company are required to adhere to the financial controls set forth in the *Servicing Guide*.

Fannie Mae is now requiring the fidelity insurance policy for a co-op project to provide for at least ten days' written notice to the co-op project or its insurance trustee before the insurer can cancel or substantially modify the policy.

## Rent Loss Insurance

### ***Servicing Guide*, Part II, Section 207.02: Rent Loss insurance**

Fannie Mae is removing all references to rent loss insurance requirements in the *Servicing Guide* in the section noted above.

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Servicers should contact their Servicing Consultant, Portfolio Manager, Investor Reporting Business Analyst, or Fannie Mae's National Servicing Organization's Servicing Solutions Center at 1-888-FANNIE5 (1-888-326-6435) with any questions regarding this Announcement.

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