SELLER/SERVICER RISK SELF-ASSESSMENT

Fidelity Bond and Errors and Omissions Insurance

A seller/servicer must have a blanket fidelity bond and an errors and omissions insurance policy in effect at all times in an amount sufficient to meet Fannie Mae's minimum coverage requirements, maximum deductible requirements, and provision requirements.

A fidelity bond is a form of insurance protection that covers policyholders for losses that they incur as a result of fraudulent acts by specified individuals. Errors and omissions insurance is a type of professional liability insurance that protects companies, their workers, and other professionals against claims of inadequate work or negligent actions.

IN THIS DOCUMENT

RESOURCES

- *Selling Guide* A3-5-01, Fidelity Bond and Errors Omissions Coverage

ONE SELLER/SERVICER'S STORY

It's time to renew our professional liability insurance policy. Managing insurance is one of those routine tasks that could use a little more attention – we've also found that our documentation is not centralized, creating additional burden on staff to locate the policy and coverage requirements. We know it's critical to document, monitor, and evaluate our Fidelity Bond and Errors and Omissions coverage, but where do we begin?

Self-Assessment Checklist **REQUIRED**

FIDELITY BOND COVERAGE

- ☐ The fidelity bond coverage must be equal to a percentage of the greater of the seller/servicer's annual total unpaid principal balance (UPB) of single-family and multifamily annual mortgage loan originations; or the highest monthly total UPB of single-family and multifamily servicing of mortgage loans that the seller/servicer owns, including mortgage loans owned by the seller/servicer and serviced by others (details below).

- ☐ Coverage requirements are:
  - Total UPB $100 million or less
    - Coverage of $300,000
    - Deductible of higher of 10% of the face value of policy or $100,000
  - Total UPB over $100 million up to $1 billion
    - Coverage of $300,000 PLUS
      - 0.150% of the next $400 million
      - 0.125% of the next $500 million
    - Deductible of higher of 10% of the face value of policy or $100,000
  - Total UPB over $1 billion
    - Coverage of $300,000 PLUS
      - 0.150% of the next $400 million PLUS
      - 0.125% of the next $500 million PLUS
      - 0.100% of any amount over $1 billion, with a maximum required coverage of $150 million
    - Deductible of 15%

      Note: A deductible higher than 15% will be considered based on adequate seller/servicer financial strength. (See *Selling Guide* A4-1-01, Maintaining Seller/Servicer Eligibility.) The seller/servicer must obtain Fannie Mae's prior written consent. The deductible cannot exceed 1% of the seller/servicer's total net worth.

ERRORS AND OMISSIONS COVERAGE*

- ☐ The errors and omissions coverage must equal the amount of the seller/servicer's fidelity bond coverage. However, Fannie Mae does not require errors and omissions coverage in excess of:
  - $10 million if the seller/servicer sells or services only single-family mortgage loans, or
  - $30 million if the seller/servicer sells or services single-family and multifamily mortgage loans.

- ☐ Fannie Mae accepts policies that provide for either coverage per aggregate loss or coverage per mortgage loan. If the policy provides coverage per mortgage loan:
  - the insurer's liability must at least equal the amount of the highest UPB for a single-family or multifamily mortgage loan that the seller/servicer owns, and
  - the seller/servicer must review the balances of the mortgage loans it services before each premium renewal date to determine whether the above limitation needs to be increased as a result of the origination of higher-balance mortgage loans during the last coverage period.
  - For policies that provide coverage per mortgage loan, the maximum deductible amount for each mortgage loan cannot be more than 5% of the insurer's liability per mortgage loan.

ERRORS AND OMISSIONS COVERAGE* (CONTINUED)

- ☐ For policies that provide coverage per aggregate loss, the deductible is determined as follows:
  - Total UPB of less than $1 billion
    - Deductible of greater of $100,000 or 10% of the face value of the policy
  - Total UPB of equal to or greater than $1 billion
    - Deductible of 15% of the face value of the policy

** Fannie Mae will accept a mortgage impairment or mortgagee interest policy as a substitute for an errors and omissions policy, provided Fannie Mae receives substantially the same coverage that an errors and omissions policy would provide.*

FIDELITY BOND AND ERRORS AND OMISSIONS COVERAGE REQUIREMENTS

- ☐ Fannie Mae is named as a "loss payee" on drafts the insurer issues to pay for covered losses incurred by Fannie Mae.
- ☐ Fannie Mae has the right to file a claim directly with the insurer if the seller/servicer fails to file a claim for a covered loss incurred by Fannie Mae when reasonably available.
- ☐ Fannie Mae will be notified at least 30 days before the insurer cancels, reduces, declines to renew, or imposes a restrictive modification to the seller/servicer's coverage for any reason other than a partial or full exhaustion of the insurer's limit of liability under the policy.
- ☐ Coverage must include a provision that the insurer will notify Fannie Mae within ten days after the insurer receives a seller/servicer's request to cancel or reduce any coverage.

ADDITIONAL CHECKLIST ITEMS **RECOMMENDED**

- ☐ A process to monitor that coverage is consistent with Fannie Mae requirements and to note that the maximum UPB definitions are based on an annual basis, not just a point in time.
- ☐ A process to validate that deductibles are consistent with Fannie Mae requirements.
- ☐ A process to validate annually that coverage includes required provisions.
- ☐ A designated individual to maintain evidence of the fidelity bond and errors and omissions coverages.

Common Findings and Documentation

MORTGAGE ORIGINATION RISK ASSESSMENT (MORA) AND SERVICER TOTAL ACHIEVEMENT AND REWARDS (STAR)

Fannie Mae conducts regular reviews to evaluate compliance with our guidelines and assess operational risks. Reviews are conducted by a team that operates independently of customer account relationship management in Fannie Mae's single-family mortgage business. A Mortgage Origination Risk Assessment (MORA) or Servicer Total Achievement and Rewards™ (STAR™) review is intended to be a joint activity conducted by the review team with active participation of your organization.

The **common findings** and **required documentation** listed below are specific to the topic of this risk self-assessment, Fidelity Bond and Errors and Omissions Insurance.

COMMON FINDINGS

- The seller/servicer did not provide sufficient documentation related to its fidelity bond and/or errors and omissions policy for us to determine whether the lender maintains the required coverage or whether the policy includes all provisions required by Fannie Mae.
- The seller/servicer does not have a process in place to ensure notification within 30 days to Fannie Mae of a single fidelity bond and/or errors and omissions policy loss that exceeds the lessor of $250,000 or the policy's deductible.
- The seller/servicer does not have fidelity bond and/or errors and omissions coverage as required.
- The seller/servicer's fidelity bond and/or errors and omissions policy deductible does not meet Fannie Mae requirements.
- The seller/servicer's fidelity bond and/or errors and omissions policy does not include appropriate provisions to evidence and protect Fannie Mae's interests.
- The seller/servicer does not have a process in place to evaluate fidelity bond and/or errors and omissions coverages on a regular basis.

REQUIRED DOCUMENTATION FOR A REVIEW

Documentation that:

A. Provides the total unpaid principal balance of single-family and multifamily annual mortgage loan originations (this should not be exclusive to the Fannie Mae servicing portfolio held by the institution and should include the entire serviced portfolio)

B. Provides highest monthly total unpaid principal balance of single-family and multifamily servicing of mortgage loans that the seller owns, including mortgage loans owned by the seller and serviced by others

C. Indicates if multifamily mortgage loans are serviced in addition to servicing single-family mortgage loans

D. Indicates if there have been any occurrences within the past 12 months of a single fidelity bond or errors and omissions policy loss that is mortgage-related and the amount exceeds the lesser of $250,000 or the policy's deductible. If yes, describe in detail the nature of the claims and if they were mortgage-related

E. Describes process in place to notify Fannie Mae of a fidelity bond or errors and omissions policy loss that is mortgage-related within 30 days of discovery

F. Describes process of coverage review, such as how often coverage is evaluated, how adequate coverage is determined, and who within the seller/servicer's organization performs this task

REQUIRED DOCUMENTATION FOR A REVIEW (CONTINUED)

G. Fidelity bond policy has the following:

- The insurer's name on the insurance certificate
- The policy and/or bond number
- The named insured
- The type and amount of coverage; should specify whether the insurer's liability limits are an aggregate loss or per-mortgage basis
- The effective date of the insurance coverage
- The expiration date of the insurance coverage
- The deductible amount of the insurance coverage

H. Errors and omissions policy has the following:

- The insurer's name on the insurance certificate
- The policy and/or bond number
- The named insured
- The type and amount of coverage; should specify whether the insurer's liability limits are an aggregate loss or per-mortgage basis
- The effective date of the insurance coverage
- The expiration date of the insurance coverage
- The deductible amount of the insurance coverage

I. Contains evidence of the following provisions for ***both*** the fidelity bond and errors and omissions policy:

- Fannie Mae is named as a "loss payee" on drafts the insurer issues to pay for covered losses incurred by Fannie Mae
- Fannie Mae has the right to file a claim directly with the insurer if the lender fails to file a claim for a covered loss incurred by Fannie Mae (if available)
- Fannie Mae will be notified at least 30 days before the insurer cancels, reduces, declines to renew, or imposes a restrictive modificationto the lender's coverage for any reason other than a partial or full exhaustion of the insurer's limit of liability under the policy
- Fannie Mae will be notified within 10 days after the insurer receives a lender's request to cancel or reduce any coverage

WHAT'S NEXT?

Use the insights you've gained — especially any gaps identified in your practices and processes — to create a customized action plan.