



Project Insurance Requirements FAQs

These FAQs are intended to help sellers and servicers understand and implement the property, flood, and liability insurance requirements for projects, and related requirements for individual units in condo, coop and planned unit development (PUD) projects, including HO-6 coverage. For complete details regarding our requirements, please see *Selling Guide* [Part B7, Insurance](#), *Servicing Guide* [Part B, Escrow, Taxes, Assessments, and Insurance](#), and related announcements.

Q1. Why does Fannie Mae no longer permit master/blanket insurance policies that provide coverage for multiple unaffiliated projects in a single policy?

Effective with *Selling Guide* Announcement [SEL-2013-08](#), and *Servicing Guide* Announcement [SVC-2013-22](#), Fannie Mae discontinued the permissibility of insurance policies that cover multiple unaffiliated projects. The complexity of these policies can make it difficult to understand the terms of coverage and create operational risk for homeowners' associations (HOAs) and/or sellers and servicers. Except as described in the following paragraph, unaffiliated projects may not share a single master property insurance policy, but each must maintain its own policy that meets Fannie Mae requirements, as detailed in *Selling Guide* Section [B7-3-04](#), Property Insurance Coverage for Units in Project Developments and underscored in *Servicing Guide* Announcement [SVC-2016-11](#).

Some project insurance programs that cover multiple unaffiliated projects now provide a dedicated policy limit for each individual covered project. Such a policy structure could provide equivalent coverage to our *Selling Guide* requirements for the policy limit. The policy limit dedicated to the subject project needs to be sufficient to cover the full insurable replacement cost of the project improvements including the units. When reviewing the insurance programs that cover multiple unaffiliated projects, the servicer must obtain the insurance policy as well as all of the necessary schedules, endorsements, statement of values, or other associated documents to adequately evaluate the insurance coverage. The HOA must be protected in the same manner as if it maintained its own individual policy and the coverage of the individual insured project cannot be affected by any actions or omissions of unaffiliated projects covered by the same policy. Additionally, all other *Selling Guide* requirements for project insurance would need to be met for such a policy to be permissible; including, but not limited to:

- insurance companies underwriting the master or blanket insurance coverage must meet Fannie Mae's insurance ratings requirements;
- the policy clearly states that each condominium, residential, or substantially residential project is a named insured, or is evidenced to be covered as an insured;
- at a minimum must protect against perils that are normally covered by the standard extended coverage endorsement, or customarily covered for similar types of projects,
- if co-insurance is included, it must be waived as stated in *Selling Guide* Section [B7-3-04](#), Property Insurance Coverage for Units in Project Developments;
- maximum deductible requirements must be met;
- building ordinance or law, steam boiler and machinery/equipment breakdown coverage is included, if applicable;
- the right of subrogation against unit owners must be waived, the insurance cannot be prejudiced by any acts or omissions of unit owners not under the control of the HOA, and the insurance must be primary;



- special other insurances must be included if required (i.e. earthquake insurance for Puerto Rico and some Guam buildings); and
- the policy must require the insurer to notify in writing the HOA (or insurance trustee) at least 10 days before it cancels or substantially changes a condo project's coverage.

The lender must document their conclusions on [Form 1071, Statement of Insurance and Fidelity Coverage](#), to communicate that equivalent coverage to our *Selling Guide* requirements has been accepted, and maintain a copy in the loan file. As a reminder, proper insurance is a continuing obligation and is a life of loan representation and warranty by lenders, subject to the flexibilities noted in *Servicing Guide* Announcement [SVC-2016-11](#) which offers servicer-level insurance alternatives to positively tracking project insurance.

Q2. What is Fannie Mae's definition of an "affiliated" project?

Affiliated projects include those that are under the same master association or share the use of common facilities that are either owned individually or as part of a master association or development. Multiple condo or PUD projects that do not have one of these characteristics, even if they are managed by the same management company, are not considered to be affiliated projects.

Separate projects under development by the same or affiliated developers shall be considered affiliated during the period of time when control of all units has not yet transferred from the developer to the individual owners or related association/corporation of a PUD, condo, or co-op project. This affiliated status of the subject project ends when control over the last unit in that project is transferred by the developer to an individual owner or related association/corporation of the project.

Projects that do not meet the definition above are considered unaffiliated projects.

Q3. Can projects under development be covered by the developer's insurance policies covering the project?

Yes. If the projects are under development, then they may be covered by the developer's insurance policies if the policies provide equivalent coverage to the requirements in the *Selling Guide*. When control is transferred to the individual owners or related association/corporation of the PUD, condo, or co-op project, each project must obtain its own insurance policies in accordance with Fannie Mae's requirements.

Q4. If the seller is unable to obtain any schedules, endorsements, or a declarations page associated with an insurance policy, how can the seller determine if the policy provides coverage that meets Fannie Mae's project insurance requirements?

If the seller is unable to obtain the necessary documentation, it cannot make the determination as to whether the master/blanket insurance policy meets Fannie Mae guidelines. Without that determination, the associated mortgage loan would not be eligible for sale to Fannie Mae.

Q5. If a master/blanket policy that met Fannie Mae's guidelines at time of delivery is subsequently changed and no longer meets Fannie Mae's guidelines, must the servicer repurchase mortgage loans in that project?

Annually and at the time of policy renewal, the servicer must ensure that master/blanket policies continue to meet Fannie Mae guidelines. If at any time, the servicer becomes aware the policy is no longer compliant with Fannie Mae guidelines, the servicer must make reasonable efforts to resolve the



compliance issues. If the issues cannot be resolved, the servicer must contact its Fannie Mae Portfolio Manager or Fannie Mae's Single-Family Servicing Support Center at 1-800-2FANNIE (232-6642).

Some servicers may choose to use alternatives to verifying project master/blanket policies annually over the life of the mortgage as described in the *Servicing Guide* Section [B-2-03](#), Property Insurance Requirements for Mortgage Loans Secured by a Unit in a PUD, Condo, or Co-op. Servicers should refer to that guidance before discontinuing the annual tracking of project insurance. The use of an alternative to verify master/blanket insurance coverage does not extend to annual verification of the HO-6 coverage, if separate coverage is required.

Q6. Is it acceptable to have an individual property insurance policy (e.g., HO3 policy) to cover a condominium unit versus requiring the project to maintain a master property policy?

Fannie Mae generally does not require individual insurance policies for a condo unit securing a first mortgage or for a co-op share loan. However, if the legal documents for the project allow for unit insurance policies for each first mortgage in lieu of a master policy, Fannie Mae will purchase loans with individual unit insurance policies that meet the requirements in *Selling Guide* Section [B7-3-06](#), Evidence of Property Insurance, and *Selling Guide* chapter [B7-3](#), Property and Flood Insurance.

Common element coverage must also be documented through a master policy. If the insurable value of the common elements (e.g., entrance signage, lamp posts, etc.) is minimal – for example, the potential policy limit is less than or very near the cost of the standard deductible, lenders may waive the need to document coverage.

Q7. Does the master property insurance policy or a related endorsement have to state “100%” replacement cost?

No, but the amount of coverage described in the terms of the policy and/or endorsements must equal 100% of the insurable replacement cost of the project improvements.

Q8. If a project master policy states coverage is provided at replacement cost, or a replacement cost endorsement is included in the policy, is this adequate verification that the policy limit maintained is adequate?

No, “replacement cost” coverage does not guarantee that the policy limit covers the full insurable replacement cost of the project improvements, including the units, as required by the *Selling Guide*. This coverage indicates that the building materials will be replaced with like kind and quality materials, but only up to the policy limit. The lender is still responsible for confirming the dollar amount of the policy limit is adequate.

Please note, if a master policy does not include a co-insurance provision (or the co-insurance provision has been waived as described in the *Selling Guide*), the lender can assume the policy limit is adequate.

Q9. If a policy has a co-insurance provision, and an agreed amount endorsement is not included, is the policy ineligible?

No, co-insurance on a property policy is a penalty that reduces the claim payout for projects that are not insured to the minimum amount of the co-insurance requirement. If an insurance policy includes a co-insurance provision, but the policy limit is enough to cover the full insurable replacement cost of the project improvements including the units, then such policy is acceptable. The lender may decide the method and documentary evidence used to determine, in its reasonable judgment, that the insurable value is sufficient. Examples of evidence include, but are not limited to, an insurance appraisal provided by the HOA and a builder's cost estimate on new construction. There are, however, circumstances where the evidence may not be available or may not support the required policy limit, in which case the policy would not meet the requirements and the project would be ineligible.



A policy with replacement cost coverage is not acceptable evidence that the policy limit is adequate, or the co-insurance provision is waived. Additional details can be found in *Selling Guide* Section [B7-3-04](#), Property Insurance Coverage for Units in Project Developments.

Q10. Is a property policy that states the elements of the project are insured to actual cash value acceptable?

No, all policies must be written at replacement cost coverage to ensure that the material used to restore the project is of like kind and quality. Actual cash value only provides a depreciated amount of coverage for the value of the remaining economic life of the item that it covers. As a result, the association would not be insured for the additional costs to replace the damaged item, which could be substantial.

Exceptions to this requirement for Fannie-to-Fannie refinances are considered on a case-by-case basis.

Q11. Why does Fannie Mae require master property insurance policies to include a Building Ordinance or Law Endorsement?

The coverage from the Building Ordinance or Law Endorsement protects the project against additional expenses required by laws that may apply when rebuilding after a loss claim event. These expenses may include costs to rebuild undamaged portions of the building, demolition of the undamaged portion of the building, and the increased cost of construction to comply with current building codes, zoning or land-use laws. If the policy does not have this endorsement, the association will not have insurance coverage for these expenses.

Even new construction projects, and projects covered under a Guaranteed Replacement Cost policy, may be subject to legal requirements causing additional expense following a loss that are not covered by insurance without a Building Ordinance or Law Endorsement.

Q12. When is the Building Ordinance or Law Endorsement not required?

The coverage is not required if it is not available or not applicable. For example, if municipalities lack building code requirements that could be mandated during reconstruction the coverage would "not be applicable" (although these circumstances are rare). If the insurance market available to the property does not offer the endorsement due to location or other features of the project, the coverage would be considered "not available". Cost is not a relevant factor in considering whether or not the Endorsement is not available or applicable, so the lender cannot forgo requiring coverage because the HOA considers the coverage to be too expensive.

State-sponsored programs such as policies through the Florida Citizen's Property program are acceptable without Building Ordinance or Law Endorsement coverage.

Also, exceptions for Fannie-to-Fannie refinances are considered on a case-by-case basis.

Additional details can be found in *Selling Guide* Section [B7-3-04](#), Property Insurance Coverage for Units in Project Developments.

Q13. If a property policy does not contain the waiver of right of subrogation against unit owners, is this acceptable?

No. This feature of a master policy protects the unit owner from being held liable for losses by the HOA or co-op corporation's insurance carrier. For example, if a unit owner accidentally burns a section of the building siding using their grill, the HOA may be able to make a claim under the HOA's property policy for the damage. If the insurer pays a claim under the master insurance policy and that policy contains a waiver of subrogation against unit owners, the insurer cannot make a claim against the unit owner who caused the damage.

The waiver of the rights of subrogation (against a unit owner) is a requirement for all property policies. Please note, these provisions are almost always stated in the standard insurance forms, and sometimes are also referred to as "rights of recovery".



Q14. If a master property insurance policy contains a Mechanical Breakdown Endorsement, does that meet Fannie Mae's requirement regarding the Steam Boiler and Machinery Coverage Endorsement?

Yes, the Steam Boiler and Machinery Coverage Endorsement is also referred to as a Mechanical Breakdown Endorsement. It is required for projects that have central heating or cooling (which may be separately metered for each unit, but still have central shared equipment that requires coverage). The amount of coverage per accident must be equal to the lesser of \$2 million or the insurable value of the building(s) housing the boiler or machinery.

Q15. Fannie Mae announced changes to flood insurance coverage requirements on September 24, 2013 (effective for applications dated on or after February 1, 2014), stating there must be a master flood insurance policy in effect for attached condos covering all of the common elements and property (including machinery and equipment that are part of the building) as well as the individual units in the building in an amount that is at least the lower of the following:

- 80% of the replacement cost, or
- The maximum insurance available from the National Flood Insurance Program (NFIP) per unit (which is currently \$250,000).

Does this mean that Fannie Mae has lowered flood insurance coverage requirements from 100% to 80% of the replacement cost of the insurable value of the improvements?

No. The policy is specific to the requirements for the master flood insurance policy only. The unit allocation from the master policy still must meet the 1- to 4-unit coverage requirements listed in *Selling Guide* Section [B7-3-07](#), Flood Insurance Coverage Requirements, Coverage for First Mortgages.

The borrower must maintain a supplemental policy to close any gap in coverage if the attached condo project's master policy meets the minimum project-level requirements above but does not meet the unit-coverage requirements.

Q16. What is meant by the term "improvements and betterments?"

The details included in the definition of "improvements and betterments" may vary by insurance carrier, but generally refer to permanent changes, alterations, or upgrades made to an individual unit that would be considered part of the security for the mortgage. Further details and guidance should be available from the insurance agent to confirm that the HOA's master policy, combined with the unit owner's HO-6 policy, provides sufficient coverage to restore an individual unit to its condition prior to a loss claim event.

Q17. If a condo master/blanket insurance policy provides for "walls-in" coverage, is an HO-6 policy for the individual condo unit still necessary?

If the unit includes improvements or betterments that are not covered under the standard master policy coverages (i.e., elements superior to the quality provided by the builder or elements added by the unit owner), the borrower must obtain an HO-6 policy that provides coverage for 100% of the insurable replacement cost of all interior improvements and betterments. Conversely, Fannie Mae does not require an HO-6 insurance policy for the condo unit when the master/blanket policy provides for "walls-in" coverage for unit interior betterments and improvements reflected in the appraisal at loan origination. Fannie Mae always recommends lenders closely collaborate with the insurance agent to help determine appropriate coverages.



Q18. Fannie Mae requires the coverage under the HO-6 insurance requirements to be "as determined by the insurer, which is sufficient to repair the condo unit to its condition prior to a loss claim event." How does the lender determine if this amount is sufficient?

When an HO-6 policy is required, the seller/servicer must ensure that the policy provides coverage in an amount that will restore the unit to its condition at the time of closing. The reasonableness of coverage can be determined from the best known/available information to the seller/servicer, including existing information from the borrower in collaboration with the insurer and the condo association.

Examples to determine the reasonableness of coverage include, but are not limited to:

- an appraisal;
- a replacement cost estimate performed by a third party;
- the original or updated condo unit specifications; or
- an interior Broker's Price Opinion.

It is a servicer's responsibility to ensure that the borrower maintains at least the required amount of coverage throughout the life of the loan. The borrower may, of course, increase the amount of coverage.

Q19. If a seller/servicer does not maintain an escrow account for a particular mortgage loan and HO-6 insurance is required, is the seller/servicer required to escrow for HO-6 insurance?

No, if a seller/servicer does not already maintain an escrow account for a particular mortgage loan for which an HO-6 insurance policy is required, then establishing an escrow account for the HO-6 insurance is not required. However, if the seller/servicer does maintain an escrow account for that particular mortgage loan, then it must also escrow for HO-6 insurance premiums.

Q20. The Fannie Mae *Selling Guide* states that for condo master property insurance policies the maximum deductible amount must be no greater than 5% of the face amount of the policy. Occasionally, a project may have a master property insurance policy with a deductible that exceeds the 5% maximum, due to a higher per unit deductible for named perils specific to a geographic area (e.g. ice damming). In such cases, is it possible for a lender to accept this higher deductible on the master policy, if an HO-6 (owner's) policy is in place that covers the unit owner's possible deductible assessment above the 5% maximum?

Yes, if the deductible of the project's master policy exceeds the 5% maximum due to a per unit deductible for named perils specific to a geographic area (where such coverage is common and customary), Fannie Mae will allow the per unit amount of deductible over 5% to be covered under a borrower's HO-6 policy. The lender is responsible for ensuring that the HO-6 coverage (1) includes the peril(s) required, (2) will cover master policy deductible assessments levied on the unit owner by the HOA for the peril, and (3) has a sufficient limit to cover the per unit amount over the permissible 5% limit. An HO-6 policy meeting these conditions is required to cover the per unit deductible amount in excess of 5% even if the master policy provides coverage for the interior of the units.

Example:

- Master Policy Limit: \$4,000,000
- Project Number of Units: 20
- Master Policy deductible: \$50,000
- Master Policy separate per unit deductible for ice dam coverage: \$25,000



The general deductible of \$50,000 is 1.25% ($\$50,000/\$4,000,000$), so it meets the Fannie Mae requirement for a maximum of a 5% deductible. However, the ice dam deductible equates to 12.50% deductible ($(\$25,000 \times 20 \text{ units})/\$4,000,000$), so the policy is not compliant for delivery. The maximum per unit deductible to meet the 5% maximum benchmark is \$10,000 ($(\$4,000,000/20) \times .05$). Accordingly, the unit owner must purchase an HO-6 policy that would cover the \$15,000 per unit overage in deductible required ($\$25,000 - \$10,000 = \$15,000$, should an ice dam peril affect the unit).

Q21. If a co-op master policy does not cover the interior of the units, is an HO-6 policy, in conjunction with the “bare walls” master policy, an acceptable alternative to meet the requirements?

The *Selling Guide* requires that co-op policies cover the entire project, including the individual units. If the project’s master policy does not cover the unit interiors, the lender must confirm that the subject unit shareholder maintains an HO-6 policy that is adequate to restore the unit to the condition prior to a loss claim event.

Q22. Fannie Mae requires a fidelity/crime policy to protect a project’s funds from the criminal acts of their management agent (MA) as well as any other parties who have access to the HOA’s funds. If the MA maintains a separate fidelity/crime policy as the named insured, does this meet the requirement for the HOA to be protected from the MA’s criminal acts as required?

No, the HOA must maintain a policy in their own name, with the acts of the management agent covered by the policy terms. If the management agent steals the HOA’s funds, the HOA must be able to recover losses under a policy in their own name in order to receive and control the claim proceeds.

A fidelity/crime policy held by the management agent (with the management agent as the named insured) is not an acceptable alternative for a fidelity/crime policy in the HOA’s name that provides coverage for the acts of all parties with access to the HOA’s funds, including the MA.

Additional details can be found in *Selling Guide* Section [B7-4-02](#), Fidelity/Crime Insurance.

Q23. If the insurable value of the common elements (e.g., entrance signage, lamp posts, etc.) is minimal –for example, the potential policy limit is less than or very near the cost of the standard deductible –is coverage mandatory?

If the lender determines that the insurable value of the common elements is de minimis, or close in value to any insurance deductible that would be obtainable, thereby negating a reasonable value of the insurance, the lender may document in the loan file a conclusion to proceed without insurance coverage on these common elements.

Q24. Are there different insurance requirements for 2- to- 4 unit condominiums or detached condos?

Unless expressly stated otherwise in the *Selling Guide*, 2- to- 4 unit condominiums and detached condos require the same coverage as any other project as noted in *Selling Guide* Chapter [B7](#), Insurance.

Q25. Are there any different insurance requirements for Fannie Mae-to-Fannie Mae refinances?

Limited cash-out refinances of loans held by Fannie Mae must still meet the property and flood insurance requirements located in *Selling Guide* Section [B7-3](#), Property and Flood Insurance. Project liability and fidelity insurance requirements are waived for these mortgages. Additional flexibility may be considered on a case-by-case basis.