

Fannie Mae Single Family / 2011 Selling Guide / Part B, Origination Through Closing / Subpart B7, Insurance / Chapter B7-3, Hazard and Flood Insurance / B7-3-04, Hazard Coverage for Units in Project Developments (12/20/2011)



B7-3-04, Hazard Coverage for Units in Project Developments (12/20/2011)

Introduction

This topic contains information on hazard coverage for units in project developments, including:

- Coverage for Units in Project Developments
- Required Coverage for PUDs, Condos, or Co-op Projects
- Amount of Coverage
- Maximum Deductible Amounts
- Special Endorsements
- Special Endorsements for Condo Projects
- Named Insured
- Notices of Changes or Cancellation
- Master or Blanket Insurance for Unaffiliated Condo Associations or Projects

Coverage for Units in Project Developments

Fannie Mae generally does not require individual insurance policies for a condo unit that secures 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 that Fannie Mae purchases or securitizes in a condo or co-op project, Fannie Mae will accept the individual unit insurance policies that meet the requirements in B7-3-06, Evidence of Hazard Insurance (12/20/2011), and Chapter B7-3, Hazard and Flood Insurance.

Required Coverage for PUDs, Condos, or Co-op Projects

This section covers property insurance requirements for insurance policies covering the common elements of PUDs, condos, and co-op projects. Fannie Mae's hazard insurance requirements (project's blanket policy) apply to PUD, condo, and co-op projects.

The insurance policy must at least protect against fire and all other hazards that are normally covered by the standard extended coverage endorsement, and all other perils customarily covered for similar types of projects, including those covered by the standard "all risk" endorsement. If the policy does not include an "all risk" endorsement, Fannie Mae will accept a policy that includes the "broad form" covered causes of loss. The following list provides the applicable requirements:

- **PUD Requirements** — The homeowners' association must maintain a property insurance policy, with premiums being paid as a common expense. The policy must cover all of the common elements except for those that are normally excluded from coverage, such as land, foundation, excavations, etc. Fixtures and building service equipment that are considered part of the common elements, as well as common personal property and supplies, should be covered.

Individual insurance policies are also required for each unit mortgage that Fannie Mae purchases in a PUD project. If the project's legal documents allow for blanket insurance policies to cover both the individual units and the common elements, Fannie Mae will accept the blanket policies in satisfaction of its insurance requirements for the units.

- **Condo Requirements** — The lender must review the entire condo project insurance policy to ensure

the homeowners' association maintains a master or blanket type of insurance policy, with premiums being paid as a common expense. The insurance requirements vary based on the type of homeowners' association master or blanket insurance policy as follows:

- “Single Entity” policy: The policy must cover all of the general and limited common elements that are normally included in coverage. These include fixtures, building service equipment, and common personal property and supplies belonging to the homeowners' association. The policy also must cover fixtures, equipment, and replacement of improvements and betterments that have been made inside the individual unit being financed. The amount of coverage must be sufficient to restore the condo unit to its condition prior to a loss claim event. If the unit interior improvements are not included under the terms of this policy type, the borrower is required to have an HO-6 policy with coverage, as determined by the insurer, which is sufficient to repair the condo unit to its condition prior to a loss claim event.
- “All-In” (sometimes known as an “all-inclusive”) policy: The policy must cover all of the general and limited common elements that are normally included in coverage. These include fixtures, building service equipment, and common personal property and supplies belonging to the homeowners' association. The policy also must cover fixtures, equipment, and replacement of improvements and betterments that have been made inside the individual unit being financed. If the unit interior improvements are not included under the terms of this policy type, the borrower is required to have an HO-6 policy with coverage, as determined by the insurer, which is sufficient to repair the condo unit to its condition prior to a loss claim event.
- “Bare Walls” policy: This policy typically provides no coverage for the unit interior, which includes fixtures, equipment, and replacement of interior improvements and betterments. As a result, the borrower must obtain an individual HO-6 policy that provides coverage sufficient to repair the condo unit to its condition prior to a loss claim event, as determined by the insurer.

In the event such coverage cannot be obtained, the lender should contact its lead Fannie Mae regional office (see E-1-03, List of Contacts (06/28/2011)).

- **Co-op Requirements** — The co-op corporation must maintain a property insurance policy, with premiums being paid as a common expense. The policy must cover the entire project, including the individual units.

Amount of Coverage

Insurance must cover 100% of the insurable replacement cost of the project improvements, including the individual units in a co-op or condo project. An insurance policy that includes either of the following endorsements ensures full insurable value replacement cost coverage:

- a Guaranteed Replacement Cost Endorsement (under which the insurer agrees to replace the insurable property regardless of the cost) and, if the policy includes a coinsurance clause, an Agreed Amount Endorsement (which waives the requirement for coinsurance); or
- a Replacement Cost Endorsement (under which the insurer agrees to pay up to 100% of the property's insurable replacement cost, but no more) and, if the policy includes a coinsurance clause, an Agreed Amount Endorsement (which waives the requirement for coinsurance).

Maximum Deductible Amounts

For policies covering the common elements in a PUD project and for policies covering condo or co-op projects, the maximum deductible amount must be no greater than 5% of the face amount of the policy.

For losses related to individual units in a co-op project or for individual PUD units that are covered by the blanket policy for the project, the maximum deductible amount related to the individual unit should be no greater than 5% of the replacement cost of the unit. If, however, the policy provides for a wind-loss deductible (either in the policy itself or in a separate endorsement), that deductible must be no greater than 5% of the face amount of the policy.

For blanket insurance policies that cover both the individual units and the common elements, the maximum deductible amount related to the individual unit should be no greater than 5% of the replacement cost of the unit.

Special Endorsements

The requirements for endorsements for PUD, condo, and co-op projects are as follows:

- Inflation Guard Endorsement, when it can be obtained;
- Building Ordinance or Law Endorsement, if the enforcement of any building, zoning, or land-use law results in loss or damage, increased cost of repairs or reconstruction, or additional demolition and removal costs. (The endorsement must provide for contingent liability from the operation of building laws, demolition costs, and increased costs of reconstruction.); and
- Steam Boiler and Machinery Coverage Endorsement, if the project has central heating or cooling. (This endorsement should provide for the insurer's minimum liability per accident to at least equal the lesser of \$2 million or the insurable value of the building(s) housing the boiler or machinery.) In lieu of obtaining this as an endorsement to the commercial package policy, the project may purchase separate stand-alone boiler and machinery coverage.

Special Endorsements for Condo Projects

Additional insurance policy requirements for condo projects are as follows:

- Any Insurance Trust Agreement is recognized.
- The right of subrogation against unit owners is waived.
- The insurance is not prejudiced by any acts or omissions of individual unit owners that are not under the control of the homeowners' association.
- The policy must be primary, even if a unit owner has other insurance that covers the same loss.

Named Insured

The table below provides the requirements regarding the name of the insured entity.

Coverage Type	Requirement for Named Insured
Condo projects	The policy must show the homeowners' association as the named insured. If the condo's legal documents permit it, the policy can specify an authorized representative of the homeowners' association, including its insurance trustee, as the named insured. The "loss payable" clause should show the homeowners' association or the insurance trustee as a trustee for each unit owner and the holder of each unit's mortgage loan.
PUD common areas	The policy must show the homeowners' association as the named insured.
Co-op project common areas	The policy must show the co-op corporation as the named insured.

The insurance policy also must include the standard mortgagee clause and must name as mortgagee either Fannie Mae or the servicers for the mortgage loans or share loans Fannie Mae holds on units in the project. When a servicer is named as the mortgagee, its name must be followed by the phrase "its successors and assigns."

Notices of Changes or Cancellation

The table below provides the notification requirements for notices of policy changes or cancellations.

Project Type	Requirement
Condo	<p>The policy must require the insurer to notify in writing the homeowners' association (or insurance trustee) and each first mortgage loan holder named in the mortgagee clause at least 10 days before it cancels or substantially changes a condo project's coverage.</p> <p>For master or blanket insurance for unaffiliated condo associations or projects:</p> <p>The policy or the endorsements must have a cancellation provision requiring each insurance company or its authorized designee or administrator to notify the named insured at least 30 days in advance of any policy reduction or cancellation for any reason except for nonpayment of premium. In the event of cancellation for nonpayment of premium, the policy must require the insurer to notify in writing the homeowners' association (or insurance trustee) and each first mortgage loan holder named in the mortgagee clause at least ten days before it cancels or substantially changes coverage.</p>
Co-op	<p>The policy must require the insurer to notify in writing the homeowners' association (or insurance trustee) and each first mortgage loan holder named in the mortgagee clause at least 30 days before it cancels or substantially changes a co-op project's coverage.</p>

Master or Blanket Insurance for Unaffiliated Condo Associations or Projects

If a lender intends to deliver a mortgage loan secured by a condo unit to Fannie Mae, the lender must obtain the insurance policy as well as all of the necessary schedules, endorsements, statements of value, or other associated documents needed to appropriately evaluate the insurance policy.

If a condo project is covered by a master or blanket insurance policy that combines insurance coverage for multiple condo projects or other residential or substantially residential projects that are unaffiliated with one another, the lender must ensure the policy meets all of the following requirements:

- The insurance policy coverage limits must meet the higher of:
 - greater than or equal to 50% of the total insurable replacement value for all condo projects and other residential or substantially residential projects insured under the policy; or
 - greater than or equal to 150% of the total insurable replacement value for the single largest condo project or other residential or substantially residential project insured under the policy, but not more than 100% of the total insurable replacement value for all condo projects and other residential or substantially residential projects insured under the policy.
- The policy endorsements must:
 - clearly state that insurance is being provided under a master or blanket insurance policy that combines insurance coverage for multiple unaffiliated condo projects or other residential or substantially residential projects;
 - clearly state that loss limits apply per occurrence and loss claims will be paid per occurrence;
 - reinstate the original per occurrence coverage limit after each loss occurrence or claim so that the full original per occurrence limit is immediately available for any subsequent loss for any perils required by Fannie Mae;
 - include a Coinsurance Waiver; and
 - clearly state that each condo project and residential or substantially residential project is a named insured.

- The policy or endorsements cannot contain an aggregate (or policy term) loss limit for any perils required by Fannie Mae.

Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

Announcements	Issue Date
Announcement SEL-2011-13	December 20, 2011
Announcement SEL-2008-34	December 16, 2008