Section 322.01: General Insurance Requirements - Applies to All Policies

A. General

Fannie Mae requires each Property to be covered by Property and Liability Insurance for the life of the Mortgage Loan. All capitalized terms or acronyms for insurance forms and policies refer to Insurance Services Office ("ISO") forms and policies or their equivalent, and other capitalized terms and acronyms used throughout this Chapter have standard insurance industry meanings. The Borrower must be listed as a named insured on the policy. If the Borrower fails to maintain all required insurance coverage on a Property securing a Mortgage Loan, the Loan Documents authorize the use of Lender-placed insurance at the Borrower's expense. The Lender must be able at all times to promptly provide all required insurance coverage in the event that the Borrower fails to do so. Policies covering Properties securing a Mortgage Loan must comply with all of the following provisions.

- Policies must be written on a per occurrence basis except for Earthquake and Professional Liability coverage, which may be written on a "claims made" basis.
- Policies must have a cancellation provision requiring the carrier to notify the Lender at least 30 days in advance of policy cancellation for any reason other than non-payment of premium.
- Policies must include a cancellation provision that provides for at least a 10 day written notification for non-payment of premium.
- Policies must name Fannie Mae as "additional insured" on General Liability and Excess/Umbrella policies.
- Property policies must contain a mortgagee clause and loss payable clause acceptable to Fannie Mae. An acceptable mortgagee clause would be:

    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

B. Blanket and Other Policies Covering More Than One Property

Use of a Blanket Policy (or policies) or multiple property policy (or policies) covering the Property and General/Excess/Umbrella/Professional Liability of the Borrower is acceptable, provided that the Lender's analysis shows:

- the policy provides the same or better insurance coverage as a single property insurance policy;
- the Property is listed and identified in the policy or associated schedules;
- the policy complies with all other applicable requirements contained in this Section; and
- all insured properties covered by the policy either:
  - have common ownership with the Borrower, or with a Key Principal, Principal or Affiliate of the Borrower; or
  - are managed by the same property management company.

The term "Blanket Policy" includes the following:

- Blanket policies;
- Blanket programs;
- Master policies;
- Master programs;
- First loss limit policies;
- First loss policies;
- Shared limit policies;
- Property programs;
- Pooled programs;
- Pooled insurance;
- Layered program; or
- Other similar insurance programs where multiple property locations are insured under 1 policy.

The Lender must review the insurable values and location of all the properties insured by the Blanket Policy to ensure compliance with the insurance requirements of the Guide. The Lenders must also evaluate the concentration of property and liability exposure of all the insured properties covered by the Blanket Policy when assessing the adequacy of insurance, paying particular attention to concentration when evaluating catastrophic coverage.

Often Blanket Policy limits will be less than 100% of the total insurable value of the properties insured by the policy. This is acceptable when there are high limits and geographic dispersion. When there is a high catastrophic exposure in a geographically concentrated area, the Lender may determine that the coverage is not adequate. When this occurs, the Borrower must obtain additional coverage or a waiver request must be submitted to Fannie Mae. The Lender's evaluation with recommendations, cost of compliant coverage, and compelling reasons to approve must accompany the waiver request.

The Lender is responsible for determining whether the Blanket Policy meets the requirements of the Guide. This determination, along with all supporting evidence, must be documented in the Lender's underwriting and/or Servicing File. Fannie Mae may audit these files from time to time.

C. Blanket Policies for Properties Not Having Common Ownership

In many cases, programs insuring unrelated entities will provide evidence of insurance that appears to be a standard layered program. Red flags to look for may include (i) the Borrower adding its Property to an existing policy which causes a significant savings in premium, or (ii) a large, rounded limit of property insurance coverage. The Lender must confirm that all entities insured are related by common ownership with the Borrower or a Key Principal, Principal or Affiliate of the Borrower. This confirmation may be obtained through the insurance broker or agent.

The Lender must submit a waiver request to Fannie Mae if the insured properties covered by the Blanket Policy do not have common ownership with the Borrower, Guarantor, Key Principal, Principal or Affiliate of the Borrower, or are not managed by the same property management company. Such a waiver request by the Lender must be accompanied by a financial rating of the entity administering the program to determine the strength and acceptability of its business practices. Fannie Mae will accept such rating from Demotech, Moody's, Standard & Poor's or Fitch on a case by case basis. Suitability of the rating will be determined by Fannie Mae. If a rating is not available, the entity administering the program must be reviewed and approved by Fannie Mae.

D. Insurance Carrier Rating

All property and casualty insurance carriers must meet 1 of the following rating requirements even if it is rated by 1 or more rating agencies or conditions:

- A.M. Best Company general policyholder's rating of ”A-” or better, and a financial performance index rating of “VI” or better;
- state wind pools or state funds, if they are the only coverages that can be obtained; or
- flood coverages issued by the National Flood Insurance Program (“NFIP”) or written by companies approved under the NFIP’s “Write Your Own” program.

E. Term

Polices must have a minimum 12-month policy term. For new Mortgage Loans, a Property may be added mid -term to an existing 12-month policy.

F. Payment of Premium

Premiums for all required policies must be paid in full with no premium financing. For Mortgage Loans where no insurance impositions are being collected, the Lender must obtain evidence that all policies are paid in full annually.

G. Evidence of Insurance

The Borrower must provide to the Lender evidence of insurance for the Property on or before the closing of the Mortgage Loan or the policy's renewal date. Evidence of insurance coverages for the Property must be provided as follows.

- Temporary Evidence - Any of the following are acceptable forms of temporary evidence of insurance:
  - ACORD 28 - "Evidence of Commercial Property Insurance" (most recent version or per state requirements if applicable), combined with ACORD 25 - "Certificate of Liability Insurance";
  - ACORD 75 - "Insurance Binder"; or
  - Mortgage Bankers Association (MBA) Evidence of Insurance - Commercial Property Form. In states where the MBA form is filed and approved, the appropriate state form must be used otherwise the most recently revised MBA form should be used, which can be found at:

    http://www.mortgagebankers.org/IndustryResources/ResourceCenters/EvidenceofInsuranceResourceCenter.

  If an ACORD certificate is not available, Fannie Mae will accept a letter signed by the Borrower and the licensed insurance broker/agent certifying that all coverage requirements and terms and conditions meet Fannie Mae's requirements. Temporary coverage, such as an insurance binder (Acord 75 - "Insurance Binder"), has an expiration date that must be monitored by the Lender and renewed on or before its expiration date.
- Permanent Evidence - The following are acceptable forms of permanent evidence of insurance:
  - The original or duplicate copy of each current insurance policy, which must be received, reviewed and placed in the Lender's Servicing File within 90 days after the delivery of the Mortgage Loan or the date of the insurance policy renewal. Except for an NFIP policy, only the complete insurance policy is sufficient evidence of coverage. Insurance policy declarations pages, single policy endorsements, insurance binders and certificates of insurance are not an acceptable form of permanent insurance coverage. The Policy Declaration page of an NFIP policy is acceptable evidence of flood insurance coverage.
  - For Properties securing a Mortgage Loans with an Unpaid Principal Balance ("UPB") of $10 million or below, the "MBA Evidence of Insurance - Commercial Property Form" is acceptable under the following conditions:
    - Form must be complete in its entirety;
    - Form must have an original signature of an individual authorized to execute the "Evidence of Insurance" on behalf of the insurance carriers issuing each policy of Property Insurance described on the form; and
    - In states where the form is filed and approved, the appropriate state form must be used, otherwise the most recently revised MBA Evidence of Insurance - Commercial Property Form should be used.
  - For Properties securing a Mortgage Loan with an UPB in excess of $10 million and/or for multi-layered Blanket Policies, including Master Property Insurance Programs, a duplicate copy of the primary insurance policies must be received along with a letter (signed and dated on company letterhead) from an individual authorized to execute any evidence of insurance on behalf of the insurance carriers issuing each policy of Property Insurance, and stating that all policies follow the same Terms, Conditions and Exclusions as the primary policy. Any differences must be specified.
  - Fannie Mae recognizes that some insurance carriers (such as State Farm) use "boiler plate" policies that do not change from year to year. In these cases, the Lender may keep a specimen kit or library of such policies and endorsements, requesting only the renewal Declarations Page along with a list of endorsements as permanent evidence of insurance. The Lender must confirm that the policies on file are current.

H. Insurance Data Requirements

On an annual basis, the Lender must complete and retain an insurance compliance checklist in the Servicing File, in either electronic or hard copy format. The Lender must retain information relating to all insurance coverages for each Mortgage Loan. Such information must be provided to Fannie Mae upon request. For each type of required insurance coverage, the following must be included:

- Name of Insurer;
- Name of Insured/Borrower;
- Coverage Amount;
- Deductible;
- Expiration Date;
- Policy term;
- Description of Property insured; and
- Coinsurer and percent, if applicable.

I. Insurance Waivers

All Lender-delegated waivers must be entered in Deal Management along with supporting documents and analysis. The Lender should use the Insurance - Delegated Waiver drop down selection box. This includes Lender-delegated waivers for excess flood and terrorism insurance. For existing Mortgage Loans, the Lender must maintain the analysis of the waiver request in the Servicing File.

Any request for a non-delegated waiver of insurance requirements prior to delivery of the Mortgage Loan to Fannie Mae must be submitted in Deal Management at least 72 hours prior to Rate Lock. For "Waiver Type", the Lender must choose "Insurance Coverage and Seismic Requirements" in the Deal Management waiver drop down box. Any request for a waiver of insurance requirements after delivery of the Mortgage Loan to Fannie Mae must be submitted by completing and delivering the Multifamily Waiver Review Form - Insurance (Form 4638) electronically to Drawer_Insurance@FannieMae.com. The Lender must retain the Multifamily Waiver Review Form - Insurance (Form 4638), all supporting documentation, and the waiver approval in its Servicing File.

Insurance waivers granted by Fannie Mae shall be for the entire Mortgage Loan term unless otherwise specified by Fannie Mae at the time the waiver is approved.

Agency Guides/Fannie Mae Multifamily/Multifamily Selling and Servicing Guide/Part III: New Underwriting/Part IIIA: Base Underwriting Requirements/Chapter 3: The Property/Section 322: Property and Liability Insurance (02/03/14)/Section 322.02: Property Damage

Section 322.02: Property Damage

This Section covers the guidelines and requirements for Property Insurance. Fannie Mae requires that each Property be covered by Property Insurance for the life of the Mortgage Loan.

A. Property Damage Minimum Requirements

What is Required	Special Causes of Loss Form (formerly referred to as "All Risk")
When Applicable	For all property types
Minimum Amount of Coverage	• Single-building Properties: 100% of estimated replacement cost. • Multiple-building Properties: 90% of estimated replacement cost. Coinsurance is allowed up to 90% provided that the amount of coverage in place is at least 90% of the estimated replacement cost of the Improvements and Business Income including Rental Value. Note: • Multiple building properties are not attached, have no common walls and no common roof lines. • Coinsurance is a property insurance provision that penalizes the insured's loss recovery if the limit of insurance purchased is not at least equal to a specified percentage of the value of the insured property. • For properties located in an area that is potentially prone to Catastrophic Events, see Section 322.03 for additional information.
Maximum Deductible	• $15,000 per occurrence for a Property securing the Mortgage Loan that is on a policy with less than $5 million in total insurable values. • $25,000 per occurrence for a Property securing the Mortgage Loan that is on a policy having greater than or equal to $5 million and less than $50 million in total insurable values. • $100,000 per occurrence for a Property securing the Mortgage Loan that is on a policy having greater than or equal to $50 million and less than $100 million in total insurable values. • $250,000 per occurrence for a Property securing the Mortgage Loan that is on a policy having greater than or equal to $100 million in total insurable values.

B. Business Income (including Rental Value) Minimum Requirements

What is Required	• Either (i) Business Income, including Rental Value, or (ii) Rental Value (if no other source of income applies). • Coverage is required for all property insurance perils including windstorm, flood, earthquake, and terrorism even if written on a stand -alone policy.
When Applicable	For all property types
Minimum Amount of Coverage	• Coverage based on Actual Loss Sustained for 12 months, or coverage based on annual Effective Gross Income for the most recent year-end financials. and • For Mortgage Loans with a UPB of $25 million or more - 90 day Extended Period of Indemnity option.
Maximum Deductible	Same as required in Property Damage in Section 322.02.A or up to a 72 hour waiting period

C. Ordinance or Law Coverage

What is Required	Ordinance or Law Coverage
When Does it Apply?	• Any Property that contains any type of non-conformance under current land use laws or ordinances (building, zoning, energy management, "green", etc.) and cannot be rebuilt "as is". • Any Property with a construction date 25 years or more before closing. Note: "As is" means the ability to be rebuilt with the same building footprint and square footage, within the municipality's required timeframe and without increasing the non-conformity or as otherwise defined by the municipality. The Lender should pay special attention to required timeframe and its feasibility.
Minimum Amount of Coverage	• Coverage A - Loss of Undamaged Portion of the Property, in an amount equal to the greater of (i) 100% of the full replacement cost of the Property less the damage threshold of the local building ordinance, or (ii) 50% if the threshold of the local building ordinance is not explicitly stated. For example: The Property has a replacement cost of $10 million. If the damage threshold of the local building ordinance is 75%, then $2.5 million is required for Coverage A. If the threshold is not known, then $5 million is required. • Coverage B - Demolition/Debris Removal Cost in the minimum amount of 10% of the full replacement cost of the Property. • Coverage C - Increased Cost of Construction in the minimum amount of 10% of the full replacement cost of the Property. Note: When Ordinance or Law Coverage is offered with A, B and C combined, the minimum limit must be the Coverage A calculation, as explained above, plus 20% of the full replacement cost of the Property. When B and C are combined, the minimum limit must be 20% of the full replacement cost of the Property. For example: The Property has a replacement cost of $10 million. If the damage threshold of the local building ordinance is 75%, then $2.5 million is required for Coverage A. A, B and C combined would require $2.5 million plus $2 million, or $4.5 million total.
Maximum Deductible	Same as required in Property Damage in Section 322.02.A.

D. Boiler and Machinery/Equipment/Mechanical Breakdown Minimum Requirements

What is Required	Full Boiler and Machinery Coverage, which covers loss arising from the operation of pressure, mechanical, and electrical equipment.
When Does it Apply?	Full Boiler and Machinery coverage is required if the Improvements contain any centralized HVAC boiler, water heater or other high-pressure vessels that are in operation and regulated by the state where the Property is located.
Minimum Amount of Coverage	100% replacement cost of the building(s) that house the equipment.
Maximum Deductible	Same as required in Property Damage in Section 322.02.A

E. Builder's Risk Minimum Requirements

What is Required	Builder's Risk Insurance
When Applicable	• For all Property types • Required if Property coverage is excluded or limited during construction, renovation or restoration.
Minimum Amount of Coverage	100% of the completed value, on a non-reporting basis.
Maximum Deductible	Same as required in Property Damage in Section 322.02.A.

F. Fidelity Bond/Crime Minimum Requirements

What is Required	Fidelity Bond/Crime Insurance must be obtained and maintained throughout the term of the Mortgage Loan. This insurance reimburses the insured for losses resulting from dishonest acts of any employee, officer or board member.
When Applicable	Cooperative Organizations only
Minimum Amount of Coverage	An amount not less than 3 Months scheduled Maintenance Fees of the Cooperative Organization
Maximum Deductible	$25,000

G. Regional Perils Minimum Requirements

What is Required	Sinkhole, mine subsidence, volcanic eruption, avalanche, etc.
When Applicable	Required for Properties in areas prone to these geological phenomena as applicable.
Minimum Amount of Coverage	100% of replacement cost.
Maximum Deductible	Same as required in Property Damage in Section 322.02.A.

Agency Guides/Fannie Mae Multifamily/Multifamily Selling and Servicing Guide/Part III: New Underwriting/Part IIIA: Base Underwriting Requirements/Chapter 3: The Property/Section 322: Property and Liability Insurance (02/03/14)/Section 322.03: Catastrophic Risk Insurance Minimum Requirements

Section 322.03: Catastrophic Risk Insurance Minimum Requirements

A. General

A catastrophic event ("Catastrophic Event") is a natural or man-made hazard resulting in an event of substantial extent causing significant physical damage or destruction, loss of life, or drastic change to the natural environment, such as earthquake, flood, terrorist attack or windstorm.

The sections below apply to areas prone to Catastrophic Events.

B. Windstorm Minimum Requirements

What is Required	If the Special Causes of Loss Form excludes any type of wind-related Catastrophic Event, a separate windstorm insurance policy must be obtained. Coverage obtained through state insurance plans, other state-managed windstorm or beach erosion insurance pools are acceptable if that is the only windstorm coverage available in an insurance market. The Lender must document that coverage is not otherwise available in the insurance market. Note: State insurance plans, other state-managed windstorm and beach erosion insurance pools are not acceptable for non-catastrophic perils.
When Applicable	Required for all Properties
Minimum Amount of Coverage	• 100% of the replacement cost. • Either (i) Business Income, including Rental Value, or (ii) Rental Value (if no other source of income applies), as follows: ◦ Coverage based on Actual Loss sustained for 12 months, or if not available, coverage based on annual Effective Gross Income for the most recent year-end financials; and For Mortgage Loans with a UPB above $25 million - 90 day Extended Period of Indemnity option. • Rent Loss coverage is required even if written on a stand-alone basis. NOTE: Windstorm “Probable Maximum Loss” (“PML”) calculations cannot be used as the primary factor for determining adequate windstorm coverage.
Maximum Deductible	• Property - 10% of the replacement cost of the Mortgaged Property. For example: The Property has a replacement cost of $10 million with a “Total Insurable Value” (“TIV”) of $50 million on the policy. The maximum deductible is 10% of $10 million or $1 million. • Business income including rental value - maximum of two weeks or equivalent.

C. Flood Minimum Requirements

1. The Lender must determine, for every Mortgage Loan, whether any of the Improvements are located in a Special Flood Hazard Area ("SFHA") Zone A or Zone V as defined by the Federal Emergency Management Agency ("FEMA").

<table>
<tr><td>What is Required</td><td>Flood Insurance</td></tr>
<tr><td>When Applicable</td><td>Flood insurance is required for Property Improvements located in SFHA, Zone A or Zone V.
If the improved portions of the Property are not located in a SFHA as verified by the Flood Determination Certificate issued in conformance with the requirements specified in this Section 322.03.B, then flood insurance is not required, even if the unimproved portions of the Property are in an SFHA.</td></tr>
<tr><td>Minimum Amount of Coverage</td><td>100% of replacement cost of Improvements located in a SFHA.
Either (i) Business Income, including Rental Value, or (ii) Rental Value (if no other source of income applies), as follows:
Coverage based on Actual Loss sustained for 12 months, or if not available, coverage based on annual Effective Gross Income for the most recent year-end financials;

<u>and</u>

For Mortgage Loans with a UPB above $25 million - 90 day Extended Period of Indemnity option.
Rent Loss coverage is required even if written on a stand-alone basis.</td></tr>
<tr><td>Maximum Deductible</td><td>5% of the replacement cost of the Mortgaged Property.

For example:

The Property has a replacement cost of $10 million with a "Total Insurable Value" ("TIV") of $50 million on the policy. The maximum deductible is 5% of $10 million or $500,000.
Note: The acceptable deductible for a "Difference in Conditions" ("DIC") policy is the limit of underlying NFIP policy.</td></tr>
</table>

2. Flood insurance must be in the form of the standard policy issued by members of the NFIP. Other policies that meet the NFIP's requirements, such as those issued by licensed property and casualty insurance companies that are authorized to participate in NFIP's "Write Your Own" program, are acceptable. Equivalent flood insurance policies written by insurance carriers are acceptable with an adequate AM Best rating (A-/VI).

3. Conditions may change over time and zones may be remapped, resulting in the reclassification of non-flood areas. After a Mortgage Loan is sold to Fannie Mae, the Lender must ensure that flood insurance is obtained if any Property Improvements are later determined to lie within a remapped SFHA Zone A or Zone V. Methods of compliance with request are discussed in subsections 4 and 5 below.

4. If conditions warrant, Fannie Mae or the Lender may require flood insurance for Property Improvements located outside of a SFHA Zone A or Zone V but within an area designated by FEMA as Zone X, such as a Property that is in an area subject to flooding due to storm water or within close proximity to a SFHA boundary.

5. If the insurance coverage available under the NFIP is not sufficient to meet the requirements set forth above, then the Borrower must obtain Excess Flood or Difference in Condition ("DIC") insurance to provide the difference up to the full replacement cost of the property, including Business Income and Rental Value coverage.

   The Lender is delegated the authority to waive compliance with the Excess Flood or Difference in Condition ("DIC") coverage requirements when the coverage significantly impacts the Debt Service Coverage such that the coverage is not economically feasible. **However, the Borrower must secure an excess flood insurance limit that is reasonable given the exposure subject to the Lender's discretion.** In this context, the statement "significantly impacts the Debt Service Coverage such that the coverage is not economically feasible," means that the purchase of Difference in Condition ("DIC") or Excess Flood coverage would cause a decrease in the Debt Service Coverage by a minimum of ten (10) basis points. Before waiving the coverage, the Lender must verify that the Borrower has made a good faith effort to obtain the coverage. The Borrower should provide a minimum of three (3) quotes and/or declination letters. The Lender must review them to ensure that the Borrower is not providing artificially high quotes or requesting flood insurance from companies not writing flood insurance in an attempt to avoid purchasing the coverage.

D. Flood Insurance Determination

1. For every Mortgage Loan, the Lender must determine whether any of the Property Improvements are located in a SFHA and must document each determination on a Standard Flood Hazard Determination form issued by FEMA (FEMA Form 81-93). The Lender must obtain flood-zone determinations from a qualified third-party flood-zone determination firm. The Lender must place a completed copy of the Standard Flood Hazard Determination form in the Lender Servicing File for the Mortgage Loan. Fannie Mae expects the Lender to exercise care and sound judgment in its selection of a third-party flood-zone determination firm.
2. Because conditions may change over time, the status of a SFHA zone may change. As a result, the Lender must obtain from its flood zone determination firm "life-of-loan" monitoring and coverage, which means that the monitoring company will notify the Lender if and when flood insurance is required for a monitored Property. The Lender must ensure that the monitoring company it selects agrees to continue monitoring all of the covered Properties in the event that the Lender sells or otherwise transfers its servicing rights to another Servicer.
3. Elevation Certificates are not valid to determine if Improvements are located in a SFHA. Only a Letter of Map Amendment or Letter of Map Revision issued by FEMA will remove an improvement from a SFHA.

E. Earthquake Insurance Minimum Requirements

What is Required?	Earthquake Insurance
When Applicable	When required by Fannie Mae.
Minimum Amount of Coverage	• 100% of the full replacement cost of the Property Improvements. • Either (i) business income, including rental value, or (ii) rental value (if no other source of income applies), as follows: ◦ Coverage based on Actual Loss sustained for 12 months, or if not available, coverage based on annual Effective Gross Income for the most recent year-end financials; <u>and</u> For Mortgage Loans with a UPB above $25 million - 90 day Extended Period of Indemnity option. • Rent Loss coverage is required even if written on a stand-alone basis.
Maximum Deductible	10% of the replacement cost of the Mortgaged Property. For example: The Property has a replacement cost of $10 million with a "Total Insurable Value" ("TIV") of $50 million on the policy. The maximum deductible is 10% of $10 million or $1million.

F. Terrorism Insurance Minimum Requirements

What is Required?	Terrorism Insurance
When Applicable	• For any Mortgage Loan with a UPB less than $25 million, the Lender is delegated the authority to waive terrorism coverage provided that the Lender has completed an analysis that shows that the Property is not a significant terrorist risk; the analysis shall include the Property location in relation to a potential terrorist target such as, but not limited to, tourist attractions, mass transportation facilities, urban areas, government buildings, etc., concentrations of risk and overall exposures. • For any Mortgage Loan with a UPB that is greater than or equal to $25 million but less than $50 million, the decision to obtain terrorism coverage may be waived only by Fannie Mae. Any waiver request must include the above referenced analysis and cost to obtain compliant coverage. • For any Mortgage Loan greater than or equal to $50 million, terrorism coverage is required. • For both property and liability exposures.
Minimum Amount of Coverage	• 100% of the full replacement cost of the Property Improvements. • Either (i) business income, including rental value, or (ii) rental value (if no other source of income applies), as follows: ◦ Coverage based on Actual Loss sustained for 12 months, or if not available, coverage based on annual Effective Gross Income for the most recent year-end financials; and ◦ For Mortgage Loans with a UPB above $25 million - 90 day Extended Period of Indemnity option. • Rent Loss coverage is required even if written on a stand-alone basis.
Maximum Deductible	Either: • Not more than the deductible of the Property Insurance policy; or • For a standalone policy; 20% of the replacement cost of the Mortgaged Property. For example: The Property has a replacement cost of $10 million with a Total Insurable Value of $50 million on the policy. The maximum deductible is 20% of $10 million or $2 million.

Agency Guides/Fannie Mae Multifamily/Multifamily Selling and Servicing Guide/Part III: New Underwriting/Part IIIA: Base Underwriting Requirements/Chapter 3: The Property/Section 322: Property and Liability Insurance (02/03/14)/Section 322.04: Liability Insurance

Section 322.04: Liability Insurance

This section covers the guidelines and requirements for liability insurance. Fannie Mae requires that each Property and Borrower be covered by liability insurance for the life of the Mortgage Loan.

If the liability insurance carrier cannot or will not provide notice of cancellation to the Lender for general liability, professional liability and excess/umbrella liability coverages, the Lender is required to advise the Borrower, in writing, that the Borrower must inform the Lender of any notice of policy cancellation for any reason within 24 hours of receipt of such notice of cancellation.

A. Commercial General Liability Minimum Requirements

What is Required?	Commercial General Liability Insurance for bodily injury, property damage and personal injury.
When Applicable	All Property types
Minimum Amount of Coverage	1. $1 million per occurrence/$2 million minimum general aggregate limit per location <u>plus</u> 2. Minimum Umbrella/Excess liability insurance (above the primary coverage) as follows: • Up through 4 stories $2 million • 5 -10 stories $5 million • 11 - 20 stories $10 million • Greater than 20 stories $25 million • The minimum required coverage limit may be satisfied by adding any combination of primary and umbrella/excess limits so that the sum of both equals the sum of the limits required in (1) plus (2) above. • For an Umbrella/Excess liability policy covering multiple locations, the minimum coverage limit may be satisfied when the limit meets the requirement for the location with the most stories. • For Seniors Properties, if General Liability is combined with Professional Liability, policies written on a “claims made” basis are acceptable with the following conditions: ◦ The Borrower must notify and seek the Lender’s approval upon the event of any the following: ▪ the Borrower changes insurance carriers; ▪ the “retroactive date” changes for any claims made policy; ▪ the insurance coverage returns to an “occurrence” policy from a “claims made” policy; or ▪ any other material change in insurance/risk financing such as forming a Captive insurer, forming or joining a risk retention group, etc.; ◦ If any of the above changes are approved, the Borrower must purchase “Extended Reporting Period” coverage (“tail coverage”) for the “claims made” policy in a dollar amount and for the applicable time period assuring that there is no potential lapse in coverage.
Maximum Deductible/“Self Insured Retention” (“SIR”)	General Liability: • $15,000 per occurrence for a Property securing the Mortgage Loan that is on a policy with less than $5 million in total insurable values. • $25,000 per occurrence for a Property securing the Mortgage Loan that is on a policy having greater than or equal to $5 million and less than $50 million in total insurable values. • $100,000 per occurrence for a Property securing the Mortgage Loan that is on a policy having greater than or equal to $50 million and less than $100 million in total insurable values. • $250,000 per occurrence for a Property securing the Mortgage Loan that is on a policy having greater than or equal to $100 million in total insurable values. Excess/Umbrella Liability: • $25,000 deductible/self-insured retention

B. Professional Liability Minimum Requirements

What is Required	Professional Liability Insurance which covers professional errors and omissions, medical malpractice and all types of abuse. **Fannie Mae must not be named an additional insured on Professional Liability Insurance policies.**
When Applicable	Assisted living facilities or other Seniors Housing Properties where any level of healthcare is provided.
Minimum Amount of Coverage	1. $1 million per occurrence/$2 million minimum general aggregate limit per location <u>plus</u> 2. Minimum umbrella/excess liability insurance (above the primary) as follows: • Up to 100 licensed beds $2 million • 101 to 500 licensed beds $5 million • 501 to 1000 licensed beds $10 million • Over 1000 licensed beds $25 million • The minimum required coverage limit may be satisfied by adding any combination of primary and umbrella/excess limits so that the sum of both equals the sum of the limits required in (1) plus (2) above. • For an Umbrella/Excess liability policy covering multiple locations, the minimum required coverage may be satisfied when that limit meets the requirement for the location with the most licensed beds. • When there is a combination of independent and assisted living beds, only the number of assisted living beds should be used to determine the limit required. • When General Liability and Professional Liability are combined in an Umbrella policy and cover multiple locations, the higher limit of the two required coverages is the minimum acceptable (with the umbrella coverage being in addition to the applicable underlying coverages for General Liability and Professional Liability). For example, if the Mortgaged Property is an 11-story, 450 bed assisted living facility: ◦ 11 stories require $10 million of Umbrella coverage. ◦ 450 licensed beds require $5 million of Umbrella coverage. ◦ If the coverages are combined, an Umbrella policy of $10 million is required.
Maximum Deductible/"Self Insured Retention" ("SIR")	Same as General Liability and Excess Liability
Captive Insurance Risk Retention Groups	Fannie Mae will accept Captive Insurance or Risk Retention Groups for Professional Liability insurance and General Liability insurance, when combined with Professional Liability insurance, for Seniors Housing Properties only. The Captive or Risk Retention Group must have a Demotech or A.M. Best Financial Stability Rating as outlined below, or must be approved by Fannie Mae. For additional information, including the list of documents required for submission to Fannie Mae if a rating is not available, see below.

C. Risk Retention Groups and Captive Insurances

Note: The following applies only to Seniors Housing Properties and pertains to Borrower's General and/or Professional liability insurance provider(s) only.

Insurance coverage provided by Risk Retention Groups is not permitted unless the Risk Retention Group has obtained a rating of A-/VI from A.M. Best or A from Demotech. When an A.M. Best or Demotech rating is not available, Fannie Mae will accept an equivalent rating from Moody's, Standard & Poor's or Fitch on a case-by-case basis. Acceptability of the rating will be determined by Fannie Mae. If no rating is available, the Risk Retention Group must be approved by Fannie Mae.

Captive Insurance and similar arrangements are generally not acceptable because they have lower capitalization requirements than traditional insurance companies and they usually are not rated by recognized rating agencies. However, due to coverage availability and prohibitive pricing in the standard and surplus lines markets, Fannie Mae will accept captive insurance for Professional Liability Insurance and General Liability Insurance when combined with Professional Liability Insurance for Seniors Housing Properties, if the captive has a Demotech A rating or A.M. Best A-VI rating, or the captive is approved by Fannie Mae. To be approved by Fannie Mae, the Lender must first recommend acceptance and approval of the captive insurance and then provide the following documents to Fannie Mae via Drawer_Insurance@fanniemae.com:

1. Detailed updated accrual runs;
2. Updated loss history (minimum 5 years/brief summary and detailed list);
3. Current updated audited financial statements from the captive and parent company for the last 2 years;
   - For the captive, audited financials should be on a stand-alone basis (if audited are not available, then unaudited financials are acceptable).
   - Parent company's financials should be on a consolidated basis.
4. Financials, audited or unaudited, for the most recent quarter for each entity;
5. Description of any changes from previous years with applicable updated resumes of all officers;
6. Description of any reinsurance and/or fronting company, if applicable;
7. Description of internal claims management procedures;
8. Status of market update;
9. Description of funding sources;
10. Business Plan: projected volume over the next year;
11. Actuarial Memorandum / Reserve Analysis as provided by the captive,
12. State Insurance Examination Report, if possible, or
   - Date of examination
   - Description of any adverse findings
   - Steps taken to remediate; and
13. Current exposure to the captive insurance or the Risk Retention Group - UPB on loans made to date.

The Lender must perform a complete analysis and make a recommendation of the captive's acceptability. All waivers associated with the captive must also be submitted.

The Lender must obtain an annual, independent review of the captive insurance. This annual independent review shall be performed by an individual firm which is (i) familiar with captive insurance structures, captive domiciles and captive operations, including experience in the analysis of both actuarial studies and audited financial statements of captives, and (ii) unrelated to and unaffiliated with the Lender, the Borrower, or any sponsor or Key Principal of the Borrower or any captive entity of any of their agents.

The review and report to Fannie Mae must include, at a minimum:

- An analysis of the captive's annual independent actuarial study, even if one is not required by the captive domicile;
- Actuarial Memorandum / Reserve Analysis as provided by the captive;
- a review of the annual independent audited financial statements for the captive, and
- A conclusion regarding the operation and financial viability of the captive.

D. Workers' Compensation

What is Required	Workers' Compensation and Employer's Liability insurance (including Terrorism) as required by applicable state law.
When Applicable	Where direct employees of the Borrower are required to be covered by Workers' Compensation laws of the state where the Property is located.
Minimum Amount of Coverage	• Statutory limits for injured employees <u>and</u> • The greater of: ◦ Employer's Liability limits of $1 million per occurrence for bodily injury, $1 million per occurrence for employee disease, and $1 million employee disease aggregate, or ◦ any applicable underlying limit required by the insurer for excess liability converge.

E. Directors' and Officers' Liability Minimum Requirements

What is Required	Directors' and Officers' Liability Insurance
When Applicable	Cooperative Organizations only
Minimum Amount of Coverage	Minimum $1 million per occurrence
Maximum Deductible	Same as required for Commercial General Liability insurance.

F. Commercial Auto Liability Minimum Requirements

What is Required	Commercial Auto Liability insurance that covers owned, non-owned, hired and leased vehicles (whichever shall apply), including personal injury protection as required by state statute.
When Applicable	If the Borrower owns or hires any vehicles in its name, or if any individuals use their own vehicles for any type of business on behalf of the Borrower or the Property.
Minimum Amount of Coverage	• The greater of: ◦ limits of $1 million per occurrence or; ◦ any applicable underlying limit required by the insurer for excess/umbrella liability converge.

Agency Guides/Fannie Mae Multifamily/Multifamily Selling and Servicing Guide/Part III: New Underwriting/Part IIIA: Base Underwriting Requirements/Chapter 3: The Property/Section 322: Property and Liability Insurance (02/03/14)/Section 322.05: Small Loans

Section 322.05: Small Loans

All insurance requirements provided in Part IIIA, Chapter 3, are applicable to Small Mortgage Loans, except as provided below.

A. Permanent Evidence

The following are acceptable evidence of insurance coverage for Small Loans.

- The originals or duplicate copies of current insurance policies must be received, reviewed and placed in the Lender's Servicing File within 90 days after the delivery of the Mortgage Loan or the date of the insurance policy renewal. Except for a National Flood Insurance Program (NFIP) policy, only the complete insurance policy is sufficient evidence of coverage. Insurance policy declarations pages, single policy endorsements, insurance binders and certificates of insurance are not an acceptable form of permanent insurance coverage. The Policy Declaration page of a NFIP policy is acceptable evidence of flood insurance coverage.
- A signed and dated statement from Borrower's insurance agent or broker confirming the policy has been reviewed and contains the following information:
    - Named insured listed as Fannie Mae Borrower.
    - Mortgagee Clause acceptable to Fannie Mae.
    - Insurance Carrier(s) have compliant AM Best Rating.
    - Policy Term is 12 months.
    - Cancellation Clause per Fannie Mae requirements.
    - Special Coverage Form applies.
    - No Coinsurance or confirmation that an Agreed Value Endorsement is attached to the policy if there is Coinsurance.
    - Limits of insurance for all required coverages including any sub-limits or other restrictions, i.e. catastrophic limits (Wind, Flood, Earthquake, etc.) that may differ from the standard property coverage amount.
    - A Statement of Values where applicable.
    - Coverage is subject to Replacement Cost valuation.
- Mortgage Bankers Association (MBA) Evidence of Insurance - Commercial Property Form. In states where the MBA form is filed and approved, the appropriate state form must be used, otherwise the most recently revised MBA form should be used.

B. Umbrella/Excess Liability Minimum Requirements

$1 Minimum umbrella/excess liability insurance is required when the Property has 4 stories or less and the Mortgage Loan amount is less than or equal to $3 million.

C. Terrorism Insurance

Terrorism insurance coverage is not required for Small Loans.