FannieMae

FAQs for HO-6 and Master/Blanket Insurance for Condominiums

June 27, 2012

These FAQs are intended to help sellers and servicers understand and implement the HO-6 and master/blanket insurance requirements in the *Selling Guide*, B7-3-04: Hazard Coverage for Units in Project Developments, and in *Servicing Guide* Announcement SVC 2011-23: Condominium Insurance Requirements. These requirements were effective for all mortgage loans with application dates on or after January 1, 2012.

Q1. What is Fannie Mae's definition of an "affiliated" condominium 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 condominium 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

Q2. Is it necessary to obtain the insurance policy as well as any schedules, endorsements, or statement of values for all new mortgage loans in condominium projects that are either affiliated or unaffiliated, or is the certificate of insurance/declaration page adequate to determine if a policy meets Fannie Mae's guidelines?

The servicer must first determine whether the condominium master or blanket policy is providing coverage for affiliated or unaffiliated projects. To make this determination, the servicer must obtain the insurance policy and any additional supporting documentation.

If the servicer determines that insurance is being provided under a master or blanket insurance policy that combines coverage for multiple condominiums and other residential or substantially residential projects that are unaffiliated, the servicer must also obtain any schedules, endorsements and statement of values, etc., necessary to determine if the insurance coverage provided meets Fannie Mae guidelines.

Q3. How can the seller determine if an insurance policy that provides insurance coverage for unaffiliated projects meets Fannie Mae requirements if the seller is unable to obtain any schedules, endorsements, or statement of values associated with the policy?

If the seller is unable to obtain the necessary information, it cannot make the determination as to whether the master/blanket insurance policy meets Fannie Mae guidelines. In the case of a new origination, the associated mortgage loan would not be eligible for sale to Fannie Mae.

Q4. What determines if a condominium project is considered "substantially residential" for unaffiliated master/blanket insurance purposes?

The *Selling Guide* (B4-2.2-04, Lender Full Review: General Eligibility Requirements for all Condo Projects) states that no more than 20% of the total square footage of a project can be used for commercial purposes. As such, if the project's total commercial square footage does not exceed this requirement, it is considered to be substantially residential.

Q5. Is a master/blanket insurance policy that combines coverage for multiple condominiums and other residential or substantially residential projects that are unaffiliated and also includes a condominium hotel or an office building acceptable?

Projects that include either condominium hotels or office buildings would not be considered substantially residential as defined in Question 4. Any associated mortgage loans would not be eligible for sale to Fannie Mae.

Q6. If a master/blanket policy that combines coverage for multiple condominiums and other residential or substantially residential projects that are unaffiliated met Fannie Mae's guidelines at time of origination but is subsequently changed and no longer meets Fannie Mae's guidelines, is the servicer liable to repurchase the loan?

Annually or at time of policy renewal, the servicer must ensure the policy continues 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 their Fannie Mae Servicing Consultant or Portfolio Manager or Fannie Mae's National Servicing Organization's Servicing Solutions Center at 1-888-FANNIE5 (888-326-6435).

Q7. If a condominium insurance policy does not indicate 100% replacement cost or guaranteed replacement coverage but states it has an agreed amount endorsement/replacement coverage, is this acceptable?

The condominium insurance policy must provide replacement cost coverage or an agreed amount endorsement that is sufficient to cover 100% of the insurable value of the building structure.

Q8. Is Fannie Mae looking for some type of verbiage or certification to show that the HO-6 insurance coverage has been determined by the insurer is adequate?

Fannie Mae does not require a specific statement or certification to evidence compliance with this requirement. The seller/servicer must ensure compliance with this requirement.

Q9. If a condominium master/blanket insurance policy provides for "all-in" coverage, is an HO-6 policy for the individual condominium unit necessary?

Fannie Mae does not require an HO-6 insurance policy for the condominium unit when the policy provides for "all-in" coverage.

Q10. If the condominium master/blanket insurance policy provides for “all-in” coverage but excludes coverage for improvements and betterments, does the borrower have to obtain an HO-6 policy for 100% of replacement cost of improvements and betterments?

“All-in” policies typically provide coverage for improvements or betterments; however, if a policy excludes coverage for improvements or betterments, the borrower must obtain an HO-6 policy that provides coverage for 100% of the insurable value of the improvements and betterments.

Q11. Are servicers required to know if a loan that is being serviced in a condominium went from a single project insurance policy at time of origination to a master/blanket policy during the servicing of the loan, and if so, is the servicer required to obtain all of the policy information and evaluate the coverage requirements of the master/blanket policy?

Servicers must ensure that properties securing mortgage loans sold to Fannie Mae meet our insurance guidelines. This review is done prior to the loan being sold to Fannie Mae and subsequently upon renewal of the insurance policy.

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 their Fannie Mae Servicing Consultant or Portfolio Manager or Fannie Mae’s National Servicing Organization’s Servicing Solutions Center at 1-888-FANNIE5 (888-326-6435).

Any new mortgage loans covered by the policy in question would be ineligible for sale to Fannie Mae.

Q12. Some Insurers have stated they will no longer be offering “Special Form/100% replacement cost” coverage. Instead they are providing “similar replacement cost” coverage. Is this acceptable?

In this circumstance, seller/servicers must ensure the insurance policy provides coverage that is sufficient to cover 100% of the insurable value of the building structure.

Q13. Fannie Mae’s previous guidelines stated that if a condominium master/blanket insurance policy only provided “bare-walls” coverage, an HO-6 insurance policy had to be obtained in an amount no less than 20% of the condo unit's appraised value. Under the new guidelines, how much HO-6 insurance coverage as a percentage of the unit’s appraised value is required?

The amount of coverage necessary under an HO-6 insurance policy would be determined as a result of collaboration between the insurer and the borrower. The amount of insurance coverage determined in this manner may or may not be based on a percentage of the condo unit’s appraised value.

Q14. If the seller/servicer is not escrowing for insurance and HO-6 insurance is required, is the seller/servicer required to escrow for HO-6 insurance?

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

Q15. Why is Fannie Mae requiring the coverage required under the new HO-6 insurance requirements to be "determined by the insurer"? Can it be determined by some other entity or method?

Yes, it can be determined by another entity or method. When an HO-6 policy is required, Fannie Mae requires that the seller/servicer ensure that the policy provides coverage in an amount that is determined from the best known/available information to the seller/servicer, including existing information from the borrower in collaboration with the insurer and the condominium association.

Q16. Can Fannie Mae provide more guidance on the requirement "to restore the unit to its condition prior to a loss claim"? How should servicers determine this?

Sellers should use the best known/available information to determine whether the insurance coverage provided at the loan's origination was a reasonable representation of the condition of a property at the time the mortgage loan was delivered to Fannie Mae. Examples to determine the reasonableness of coverage include but not limited to:

- an appraisal,
- a replacement cost estimate performed by a third party,
- the original or updated condominium unit specifications, or
- an Interior Broker's Price Opinion.

It is a servicer's responsibility to ensure that the borrower maintains that amount of coverage throughout the life of the loan unless the borrower increases the amount of the coverage.