

Agency Guides/Fannie Mae Single Family/2011 Servicing Guide/Part II: Mortgage and Property Insurance/II, Chapter 2: Hazard Insurance (01/31/03)/II, Chapter 2: Hazard Insurance (01/31/03)

II, Chapter 2: Hazard Insurance (01/31/03)

Each borrower has the right to select his or her own insurance carrier to provide hazard insurance for the security property. The servicer of a **first** mortgage loan must make sure the selected insurer, the insurance policy, and the amount and type of coverage meet Fannie Mae's requirements. Fannie Mae requires the types of hazard insurance policies that are commonly acceptable to mortgage loan investors. The policies must meet the specific requirements described in this *Chapter*. In some cases, Fannie Mae may require additional coverage or consider coverage that differs from these requirements.

The servicer of a **second** mortgage loan must make sure that the amount of the existing hazard insurance coverage for the first mortgage loan meets Fannie Mae's requirements. To do this, the servicer must obtain a copy of the policy for the first mortgage loan and review it carefully to determine that the coverage is adequate to protect the security of both the first and second mortgage loans. If the existing hazard insurance policy does not provide the amount of coverage Fannie Mae requires, the servicer must require the borrower to obtain appropriate endorsements that will bring the coverage into line with Fannie Mae's requirements. The servicer should send a copy of these endorsements to the servicer of the first mortgage loan.

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II, 201: Payment of Insurance Premiums (02/01/05)

The servicer of a **first** mortgage loan must see that the premiums required to ensure the continuation of insurance coverage are paid. To do this, the servicer should use the funds in the borrower's escrow deposit account. If the deposit account balance is not sufficient to pay the premiums, the servicer should either get the necessary funds from the borrower or advance its own funds. When the servicer has waived the escrow deposit account for a specific borrower, it remains responsible for the timely payment of the insurance premiums. Therefore, if the borrower fails to pay a premium, the servicer must advance its own funds to pay the past due premium (or to obtain substitute coverage, if necessary), revoke the waiver, and begin escrow deposit collections to pay future premiums. (also see *Chapter 6, Lender-Placed Property Insurance*)

The servicer of a **second** mortgage loan generally does not pay hazard insurance renewal premiums because they are usually paid from an escrow deposit account that the servicer of the first mortgage loan maintains. However, if that servicer does not maintain an escrow deposit account, either the borrower or the second mortgage loan servicer must pay the renewal premiums. When the borrower is responsible for paying the renewal premiums, the second mortgage loan servicer must obtain satisfactory evidence that the premium has been paid. If the borrower fails to pay the premium (or if the second mortgage servicer is maintaining an escrow deposit account, but the account balance is not sufficient to pay the full amount due), the second mortgage loan servicer may have to advance its own funds to pay the premium to ensure the continuation of the coverage. The second mortgage loan servicer should immediately begin requiring escrow deposits to cover future renewal premiums whenever the borrower fails to pay premiums he or she is obligated to pay. In addition, should the second mortgage loan servicer discover, at any time, that the property is not covered by a hazard insurance policy, it must obtain the required coverage to protect Fannie Mae's interests. In this case, all of Fannie Mae's insurance requirements that relate to coverage for a first mortgage loan must be met.

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II, 202: Acceptable Policies (06/30/02)

Unless acceptable alternative arrangements are in effect, each hazard insurance policy for a **first** mortgage loan must be written by an insurance carrier that has an acceptable rating from either the A.M. Best Company, Inc.; Demotech, Inc.; or Standard and Poor's. Fannie Mae does not require the insurance carrier for a pre-existing hazard insurance policy for a reverse mortgage loan to meet Fannie Mae's rating requirement. However, should a reverse mortgage loan borrower obtain a new hazard insurance policy, the carrier of that policy must satisfy Fannie Mae's rating requirement.

Fannie Mae does not require that the hazard insurance policy for a property that secures a **second** mortgage loan be written by an insurance carrier that meets Fannie Mae's criteria for acceptable policies (unless Fannie Mae has an interest in the first mortgage loan) since the policy was already in existence when the second mortgage loan was originated. However, if the second mortgage loan servicer has occasion to obtain a new hazard insurance policy for the property, it must ensure that the new policy will meet all of Fannie Mae's criteria for acceptable policies.

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II, 202.01: Rated Insurance Underwriters (09/30/05)

A hazard insurance carrier for a regularly amortizing **first** mortgage loan needs to meet only one of the following rating categories (even if it is rated by more than one of the rating agencies):

- Carriers rated by the A.M. Best Company, Inc. must have either:
 - a “B” or better Financial Strength Rating in Best's Insurance Reports, or
 - an “A” or better Financial Strength Rating **and** a Financial Size Category of “VIII” or greater in Best's Insurance Reports—Non-US Edition.
 - Carriers providing coverage for co-op projects must have a general policyholder's rating of “A” and a Financial Size Category of “V” in Best's Insurance Reports.
- Carriers rated by Demotech, Inc. must have an “A” or better rating in Demotech's *Hazard Insurance Financial Stability Ratings*.
- Carriers rated by Standard and Poor's must have a “BBB” or better Insurer Financial Strength Rating in Standard and Poor's *Ratings Direct Insurance Service*.

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II, 202.02: Other Acceptable Insurance Underwriters (08/31/06)

Fannie Mae also will accept hazard insurance policies underwritten by a state's Fair Access to Insurance Requirements (FAIR) plan if it is the only coverage that can be obtained. In addition, Fannie Mae will accept coverage obtained through state insurance plans—such as the Hawaii Property Insurance Association (HPIA), Florida's Citizens Property Insurance Corporation, or other state-managed windstorm and beach erosion insurance pools—if that is the only coverage that is available. Fannie Mae will accept a separate windstorm and earthquake insurance policy issued by the Virgin Islands Windstorm and Earthquake Insurance Authority (for properties in the Virgin Islands) or a separate hurricane insurance policy issued by the Hawaiian Hurricane Relief Fund (for properties in Hawaii)—as long as the companion

noncatastrophic fire and extended coverage (or homeowner's) policy is obtained from a hazard insurer that satisfies Fannie Mae's rating criteria.

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II, 202.03: Mortgage Impairment Coverage (09/30/05)

If the servicer is covered by a mortgage impairment (or mortgagee interest) insurance policy, Fannie Mae does not require it to confirm that the borrower's hazard insurance coverage is with a firm that meets Fannie Mae's rating requirements. Instead, the servicer may rely on its impairment policy as a type of reinsurance arrangement. However, the issuer of the mortgage impairment (or mortgagee interest) policy must meet either one of the A.M. Best's Financial Strength Ratings or Standard and Poor's Insurer Financial Strength Rating mentioned in *Section 202.01, Rated Insurance Underwriters (09/30/05)*.

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II, 202.04: Reinsurance Arrangements (09/30/05)

Fannie Mae will accept the policies of an insurer that does not meet Fannie Mae's rating requirement if this insurer is covered by reinsurance with a company that meets either one of the A.M. Best's Financial Strength Ratings or Standard and Poor's Insurer Financial Strength Rating mentioned in *Section 202.01, Rated Insurance Underwriters (09/30/05)*.

The primary insurer and the reinsuring company must be authorized (or licensed, if that is required) to transact business within the state where the property is located. The reinsurance agreement must have a "cut-through" endorsement that provides for the reinsurer to become immediately liable for 100% of any loss payable by the primary insurer in the event that the primary insurer becomes insolvent. Both insurance carriers must execute an *Assumption of Liability Endorsement* (Form 858). Fannie Mae will accept any equivalent endorsement that provides for 100% reinsurance of the primary insurer's policy and a 90-day written notice to advise Fannie Mae of the termination of the reinsurance arrangement. Form 858 (or the equivalent endorsement) must be attached to each insurance policy that is covered by the reinsurance agreement—unless the servicer is covered by a mortgage impairment (or mortgagee interest) insurance policy.

A reinsurer can limit its coverage exposure by specifying a dollar limitation in the reinsurance endorsement. However, Fannie Mae will not accept a contract that allows contributions or assessments either to be made against Fannie Mae or to become a lien on the property that is superior to Fannie Mae's lien. If the reinsurance endorsement includes a dollar limitation, the insurance written under the policy cannot exceed that amount.

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II, 203: Coverage Required for Home Mortgage Loans (01/31/03)

Property insurance for home mortgage loans must protect against loss or damage from fire and other hazards covered by the standard extended coverage endorsement. The coverage should be of the type that provides for claims to be settled on a replacement cost basis. (For reverse mortgage loans, Fannie Mae will accept coverage that includes provisions for inflation adjustments in lieu of settling claims on a

replacement cost basis.) Fannie Mae will not accept hazard insurance policies that limit or exclude from coverage (in whole or in part) windstorm, hurricane, hail damages, or any other perils that are normally included under an extended coverage endorsement. A servicer should advise borrowers that they may not obtain hazard insurance policies that include such limitations or exclusions—unless they are able to obtain a separate policy or endorsement from another commercial insurer that provides adequate coverage for the limited or excluded peril or from an insurance pool that the state has established to cover the limitations or exclusions.

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II, 203.01: Amount of Coverage (01/31/03)

Exhibit 1: Formula for Determining Amount of Required Hazard Insurance Coverage, provides a formula for determining the amount of hazard insurance coverage generally required for a first mortgage loan. (Fannie Mae does not require hazard insurance coverage for FHA Title I loans or for some construction-to-permanent mortgage loans that are covered by construction site insurance during the construction period, although Fannie Mae's standard hazard insurance requirements will apply for these construction-to-permanent mortgage loans as soon as the borrower occupies the property or the construction is completed.) Although the hazard insurance requirement for most home renovation or construction mortgage loans is initially based on the as-is value of the property, the amount of coverage must be increased, if necessary, following the completion of the renovation or construction work to ensure that Fannie Mae's standard coverage requirement is satisfied. (also see *Section 207.03, Construction Site Insurance (01/31/03)*)

The amount of coverage Fannie Mae requires for a reverse mortgage loan is 100% of the insurable value of the improvements. For any other first-lien home mortgage loan, Fannie Mae requires coverage equal to the lesser of:

- 100% of the insurable value of the improvements—as established by the property insurer, or
- the UPB of the mortgage loan, as long as it at least equals the minimum amount—usually 80% of the insurable value of the improvements—required to compensate for damage or loss on a replacement cost basis. If it does not, then coverage that does provide the minimum required amount must be obtained.

When the existing coverage for a property that secures a second-lien home mortgage loan does not provide coverage equal to the lesser of 100% of the insurable value of the property improvements or the combined UPBs of the first and second mortgage loans (as long as they equal 80% of the insurable value of the improvements), the second mortgage loan servicer must require the borrower to obtain the additional coverage needed to bring the coverage into line with Fannie Mae's requirements. A copy of any endorsements should be sent to the first mortgage loan servicer.

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II, 203.02: Deductible Amount (05/25/06)

Unless a higher maximum deductible amount is required by state law, the maximum allowable deductible for a home mortgage loan is 5% of the face amount of the policy. The deductible clause may apply to either fire, extended coverage, or both. When a policy provides for a separate 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.

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II, 204: Coverage Required for Units in PUD Projects (01/31/03)

Fannie Mae requires individual insurance policies for each first mortgage loan that it purchases or securitizes in a PUD project. If the constituent documents for the project allow for blanket insurance policies to cover both the individual units and the common elements, Fannie Mae will consider the blanket policy as satisfying its insurance requirements for the units and the project.

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II, 204.01: Coverage for the Unit Mortgage Loan (05/25/06)

Property insurance for PUD units must protect against loss or damage from fire and other hazards covered by the standard extended coverage endorsement. The coverage should be of the type that provides for claims to be settled on a replacement cost basis. (For reverse mortgage loans, Fannie Mae will accept coverage that includes provisions for inflation adjustments in lieu of settling claims on a replacement cost basis.) Fannie Mae will not accept hazard insurance policies that limit or exclude from coverage (in whole or in part) windstorm, hurricane, hail damages, or any other perils that are normally included under an extended coverage endorsement. A servicer should advise borrowers that they may not obtain hazard insurance policies that include such limitations or exclusions unless they are able to obtain a separate policy or endorsement from another commercial insurer that provides adequate coverage for the limited or excluded peril or from an insurance pool that the state has established to cover the limitations or exclusions.

A. Amount of coverage. The amount of coverage Fannie Mae requires for a PUD unit that secures a reverse mortgage loan is 100% of the insurable value of the improvements. For any other first mortgage loan that is secured by a PUD unit, Fannie Mae requires coverage equal to the lesser of:

- 100% of the insurable value of the improvements—as established by the property insurer, or
- the UPB of the mortgage loan (or the combined UPB of the first and second mortgage loans, if applicable), as long as it equals the minimum amount (80% of the insurable value of the improvements) required to compensate for damage or loss on a replacement cost basis. If it does not, then coverage that does provide the minimum required amount must be obtained.

B. Deductible amount. Unless a higher maximum deductible amount is required by state law, the maximum allowable deductible for a PUD unit mortgage loan is 5% of the face amount of the policy. However, if the coverage is provided under a blanket policy, the percentage limit must be based on the replacement cost of the PUD unit rather than on the face amount of the policy. The deductible clause may apply to either fire, extended coverage, or both. When a policy provides for a separate 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 (or 5% of the replacement cost of the PUD unit if the coverage is provided under a blanket policy).

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II, 204.02: Coverage for the Common Areas (05/25/06)

The HOA for a PUD project must maintain a policy of property insurance, 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. The insurance policy must at least protect against loss or damage by fire and all other hazards that are normally covered by the standard extended coverage endorsement, and all of the 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.

A. Amount of coverage. Insurance should cover 100% of the current replacement cost of the project improvements. An insurance policy that includes either of the following endorsements will ensure 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).

B. Special endorsements. The following special endorsements also are required for a PUD project:

- an *Inflation Guard Endorsement*, when it can be obtained;
- a *Building Ordinance or Law Endorsement*, if the enforcement of any building, zoning, or land-use law will result 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
- a *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.)

C. Deductible amount. Unless a higher maximum deductible amount is required by state law, the maximum allowable deductible for policies covering the common elements in a PUD project is 5% of the policy face amount. If the policy is a blanket policy that also covers individual PUD units, the deductible related to the individual units must be no greater than 5% of the replacement cost of the unit(s). If the blanket policy (or a separate endorsement to it) provides for a separate wind-loss deductible, the wind-loss deductible that relates to the individual units may be no greater than 5% of the replacement cost of the unit(s).

D. Named insured. All insurance policies for the PUD common areas and elements must show the HOA as the named insured. The insurance policies also must include the standard mortgage loan clause and must name as mortgagee either Fannie Mae or the servicers for the mortgage loans Fannie Mae holds on units in the project. When a servicer is named as mortgagee, its name should be followed by the phrase "its successors and assigns."

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II, 205: Coverage Required for Units in Condo Projects (12/16/08) (12/16/08)

Even though Fannie Mae does not require an individual insurance policy on a condo unit that secures a first mortgage loan, the servicer must verify that any coverage Fannie Mae requires for the HOA is being maintained.

Servicers must review the entire condo project insurance policy to ensure that the HOA maintains a master or blanket type of insurance policy with premiums being paid as a common expense for only the project in which the individual condo unit is financed. The policy must cover all of the general and limited common elements that are normally included in coverage. This includes fixtures and building service equipment and common personal property and supplies belonging to the HOA. The policy also must cover fixtures, equipment, and other personal property inside individual units if they will be financed by a mortgage loan that Fannie Mae purchases or securitizes, whether or not the property is part of the common elements (including improvements and betterment coverage to cover any improvements that the borrower may have made).

If the master or blanket policy does not cover any improvements that the borrower has made, then the servicer must ensure that all units in a condo project have a "walls-in" coverage policy (commonly known as HO-6 policy). The HO-6 insurance policy must provide coverage in an amount that is no less than 20% of the condo unit's appraised value. The standard requirement for a 5% deductible applies. In the event such coverage cannot be obtained, the servicer should contact Fannie Mae's Project Standards team via e-mail at project_standards@fanniemae.com.

Coverage does not need to include land, foundations, excavations, or other items that are usually excluded from insurance coverage. The insurance policy must at least protect against loss or damage by 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.

Servicers must verify hazard insurance (including wind and flood insurance, if applicable) coverage at the project level as part of their review of a project. Servicers must ensure that each condo association is covered by an individual policy.

The following project insurance practices are prohibited:

- A blanket policy that covers multiple unaffiliated condo associations or projects, or
- A self-insurance arrangement whereby the HOA is self-insured or has banded together with other unaffiliated associations to self-insure all of the general and limited common elements of the various associations.

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II, 205.01: Amount of Coverage (06/30/02)

Insurance for a condo association project should cover 100% of the insurable replacement cost of the project improvements, including the individual units in the project. Coverage does not need to include land, foundations, excavations, or other items that are usually excluded from insurance coverage. An insurance policy that includes either of the following endorsements will ensure 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).

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II, 205.02: Special Endorsements (09/30/96)

The following special endorsements are required for condo projects:

- an *Inflation Guard Endorsement*, when it can be obtained;
- a *Building Ordinance or Law Endorsement*, if the enforcement of any building, zoning, or land-use law will result 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.);
- a *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; and
- a *Special Condominium Endorsement*, which must provide that
 - any Insurance Trust Agreement will be recognized;
 - the right of subrogation against unit owners will be waived;
 - the insurance will not be prejudiced by any acts or omissions of individual unit owners that are not under the control of the HOA; and
 - the policy will be primary, even if a unit owner has other insurance that covers the same loss.

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II, 205.03: Deductible Amount (05/25/06)

Unless a higher maximum deductible amount is required by state law, the maximum allowable deductible for policies covering condo projects is 5% of the policy face amount.

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II, 205.04: Named Insured (06/30/02)

Insurance policies for condo projects should show the HOA as the named insured. If the condo's legal documents permit, the policy can specify an authorized representative of the HOA, including its insurance trustee, as the named insured. The "loss payable" clause should show the HOA or the insurance trustee as a trustee for each unit owner and the holder of the mortgage loan for each unit.

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

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II, 205.05: Notices of Changes or Cancellation (06/30/02)

The insurance policy for a condo project should require the insurer to notify in writing the HOA (or insurance trustee) and each first mortgage lienholder named in the mortgage loan clause at least ten days before it cancels or substantially changes the coverage for the project.

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II, 206: Coverage Required for Units in Cooperative Projects (06/30/02)

Even though Fannie Mae does not require an individual insurance policy on a co-op unit, the servicer of a first mortgage loan must verify that any coverage Fannie Mae requires for the co-op corporation is being maintained for the co-op project.

The co-op corporation must maintain a policy of property insurance, with premiums being paid as a common expense. The policy must cover the entire project, including the units. Coverage does not need to include land, foundations, excavations, or other items that are usually excluded from insurance coverage. 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.

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II, 206.01: Amount of Coverage (01/31/03)

Insurance for a co-op project should cover 100% of the insurable replacement cost of the project improvements, including the individual units. An insurance policy that includes either of the following endorsements will ensure 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*; 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).

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II, 206.02: Special Endorsements (01/31/03)

The following special endorsements are required for co-op projects:

- an *Inflation Guard Endorsement*, when it can be obtained;
- a *Building Ordinance or Law Endorsement*, if the enforcement of any building, zoning, or land-use law will result 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
- a *Steam Boiler and Machinery Coverage Endorsement*, if the project has central heating or cooling. (This endorsement should provide for the insurer's maximum 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.

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II, 206.03: Deductible Amount (05/25/06)

Unless a higher maximum amount is required by state law, the maximum deductible amount for a co-op project is 5% of the policy face amount. For losses related to individual units, the deductible must be no greater than 5% of the replacement cost of the unit(s). The deductible for the individual unit also must be no greater than 5% of the replacement cost of the unit—if the policy provides for a wind-loss deductible (either in the policy itself or in a separate endorsement).

Agency Guides/Fannie Mae Single Family/2011 Servicing Guide/Part II: Mortgage and Property Insurance/II, Chapter 2: Hazard Insurance (01/31/03)/II, 206: Coverage Required for Units in Cooperative Projects (06/30/02)/II, 206.04: Named Insured (01/31/03)

II, 206.04: Named Insured (01/31/03)

All insurance policies for co-op projects must show the co-op corporation as the named insured. The insurance policy also must include the standard mortgage loan clause and must name as mortgagee either Fannie Mae or the servicers for the share loans Fannie Mae holds on units in the project. When a servicer is named as mortgagee, its name should be followed by the phrase "its successors and assigns."

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II, 206.05: Notices of Changes or Cancellation (01/31/03)

The insurance policy for a co-op project should require the insurer to notify in writing the co-op corporation and each share loan holder named in the mortgage loan clause at least 30 days in advance of a cancellation or any substantial reduction in the coverage for the project.

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II, 207: Additional Coverages (01/31/03)

In some instances, Fannie Mae requires that the borrower obtain certain types of additional property insurance coverage. Fannie Mae also permits optional types of coverage to be included in a borrower's hazard insurance policy. If the servicer believes that a property that secures a first mortgage loan is exposed to hazards that a fire and extended coverage policy does not protect against, it should contact Fannie Mae to determine whether additional coverage is necessary in the particular circumstances.

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II, 207.01: Earthquake (or Typhoon) Insurance (01/31/03)

Fannie Mae requires earthquake insurance for all buildings in Puerto Rico. In Guam, it is required only for buildings of masonry construction. A typhoon endorsement is also required in Guam. The amount of required coverage and the deductible limitations are the same for these policies as they are for fire and extended coverage policies.

Agency Guides/Fannie Mae Single Family/2011 Servicing Guide/Part II: Mortgage and Property Insurance/II, Chapter 2: Hazard Insurance (01/31/03)/II, 207: Additional Coverages (01/31/03)/II, 207.02: Rent Loss Insurance (08/31/04)

II, 207.02: Rent Loss Insurance (08/31/04)

Fannie Mae requires servicers to ensure that rent loss insurance coverage is maintained on any investment property that secures a conventional mortgage loan that was originated under Fannie Mae's Enhanced Eligibility Criteria. Fannie Mae's Enhanced Eligibility Criteria permitted maximum allowable LTV ratios for cash-out refinance transactions, purchase transactions, and limited cash-out refinance transactions. Rent loss insurance covers rental losses that are incurred during the period that a property is being rehabilitated following a casualty. The rent loss insurance coverage must be equal to a minimum of six months of the gross monthly rent.

Fannie Mae also requires continued rent loss insurance coverage to be maintained for co-op projects that had fewer than 70% of the units sold to owner-occupants at the time the co-op project was approved by Fannie Mae. In this case, the coverage must protect the co-op corporation against six months of lost rent due under proprietary leases if the project is a garden-type project of three or fewer stories, and twelve months of rent loss if the project is more than three stories high.

When rent loss coverage is required for investment property mortgage loans originated pursuant to Fannie Mae's Enhanced Eligibility Criteria or in co-op projects, coverage must be maintained at specified levels for as long as the mortgage loan is outstanding.

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207.03: Construction Site Insurance (01/31/03)

II, 207.03: Construction Site Insurance (01/31/03)

When Fannie Mae purchases—under either its standard guidelines for conversions of construction-to-permanent financing or the guidelines for its Native American Housing Initiatives—a mortgage loan that combines construction and permanent financing into a single transaction before the construction of the property improvements is completed, Fannie Mae requires that the property (and any partially completed improvements) be covered by construction site insurance. Construction site insurance covers any losses during the construction period that result from theft, vandalism, and acts of nature (including fire, flood, and wind damage). The amount of the construction site insurance coverage must be equal to the original mortgage loan amount. The construction site insurance may be canceled once the borrower obtains hazard (and, if applicable, flood) insurance that meets Fannie Mae's standard requirements once the improvements are completed or the borrower occupies the property (whichever comes first). (also see *Section 203.01, Amount of Coverage (01/31/03)*)

Agency Guides/Fannie Mae Single Family/2011 Servicing Guide/Part II: Mortgage and Property Insurance/II, Chapter 2: Hazard Insurance (01/31/03)/II, 207: Additional Coverages (01/31/03)/II, 207.04: Optional Coverages (01/31/03)

II, 207.04: Optional Coverages (01/31/03)

Hazard insurance policies that include optional coverage that Fannie Mae does not require are acceptable. For example, a “homeowner's” or “package” policy is acceptable as long as Fannie Mae is not obligated to renew any part of the coverage that exceeds its required coverage. Fannie Mae will not pay costs arising from disputes with insurance carriers in settling claims that relate only to this optional coverage.

The servicer may act as a broker or agent in the sale of mortgage loan (or credit) life insurance to the borrower subsequent to origination, as well as any similar insurance policy that provides for payment of mortgage loan installments if the borrower becomes disabled. (A credit life insurance policy must require separately identified premium payments on a monthly or annual basis.) In such cases, the servicer must agree to reimburse Fannie Mae for attorney's fees or any costs that Fannie Mae incurs if it brings an action on a defaulted mortgage loan and the borrower:

- defends against Fannie Mae's foreclosure or acts to enjoin Fannie Mae from liquidating the mortgage loan, and
- the defense or the action for injunction is based on an obligation of the servicer (as broker or agent) or the mortgage life insurance carrier.

Example: Acting as broker, a servicer sells a borrower an insurance policy that will make payments if the borrower becomes disabled. Eventually, the borrower is disabled, but mortgage loan payments are not made because the servicer allowed the insurance policy to lapse. When Fannie Mae attempts to foreclose on the mortgaged property, the borrower defends on the ground that the servicer is responsible for the default. In these circumstances, Fannie Mae will not pay for any extra attorney's fees or costs that result from the defense just described.

Agency Guides/Fannie Mae Single Family/2011 Servicing Guide/Part II: Mortgage and Property Insurance/II, Chapter 2: Hazard Insurance (01/31/03)/II, 208: Mortgage Clauses (01/31/03)

II, 208: Mortgage Clauses (01/31/03)

All insurance policies that cover individual properties that secure **first** mortgage loans must include (or have attached) a “standard” or “union” mortgage clause (without contribution) in the form customarily used

in the area in which the property is located. A mortgage clause that amounts to a mere loss-payable clause is not acceptable. Fannie Mae does not require that it be named in the mortgage clause, unless the coverage would be impaired by its not being named. If Fannie Mae is named, the clause should read "Fannie Mae, in care of (insert servicer's name and address here)." This will ensure that all matters related to the policy will be referred directly to the servicer.

When Fannie Mae purchases or securitizes a **second** mortgage loan, the mortgage clause in the hazard insurance policy for the first mortgage loan must be amended to recognize the existence of the second mortgage loan and Fannie Mae's interest must be clearly set out in the policy. Fannie Mae does not require that it be named as the second mortgagee in the mortgage clause, unless that is required to have its interest recognized. If Fannie Mae is named, the clause should read "Fannie Mae, in care of (insert servicer's name and address here)."

When Fannie Mae is not named in the mortgage clause, the servicer's name, followed by the phrase "its successors and assigns," should be shown as the mortgagee (or second mortgagee, as the case may be). In all cases, the insurer should be instructed to send all correspondence, policies, bills, etc., to the servicer, rather than to Fannie Mae. For second mortgage loans, the insurer should be instructed to send this material to both the servicer of the first mortgage loan and the second mortgage loan servicer.

Agency Guides/Fannie Mae Single Family/2011 Servicing Guide/Part II: Mortgage and Property Insurance/II, Chapter 2: Hazard Insurance (01/31/03)/II, 209: Evidence of Insurance (01/31/03)/II, 209: Evidence of Insurance (01/31/03)

II, 209: Evidence of Insurance (01/31/03)

The servicer of a **first** mortgage loan must keep the original insurance policy for the mortgage loan in its custody—unless it is covered by a mortgage impairment or mortgagee interest insurance policy or uses other evidence of insurance that Fannie Mae considers acceptable. When the mortgage loan covers an individual unit in a PUD and coverage for the unit is provided under an individual policy, the servicer also must have in its possession a copy of any insurance policy covering the common areas of the PUD project. The servicer of a second mortgage loan does not need to keep the original policy in its possession if it is not responsible for paying the renewal premiums; however, it should retain in its files a copy of the insurance policy, any endorsements to it, and evidence of premium payments.

The servicer may microfilm (or otherwise condense) any of the forms used as evidence of insurance. However, the servicer must be able to provide a legible copy of the individual insurance policy if Fannie Mae ever has need to request one.

Agency Guides/Fannie Mae Single Family/2011 Servicing Guide/Part II: Mortgage and Property Insurance/II, Chapter 2: Hazard Insurance (01/31/03)/II, 209: Evidence of Insurance (01/31/03)/II, 209.01: Short-Form Certificate of Insurance (01/31/03)

II, 209.01: Short-Form Certificate of Insurance (01/31/03)

Instead of providing a full insurance policy for each mortgage loan, some insurers will issue a short-form certificate of insurance. A servicer may accept a short-form certificate of insurance in lieu of an original policy if the certificate shows all of the necessary information and is signed by the insurer. In this case, a complete text of the full policy must be retained in the servicer's office.

Agency Guides/Fannie Mae Single Family/2011 Servicing Guide/Part II: Mortgage and Property Insurance/II, Chapter 2: Hazard Insurance (01/31/03)/II, 209: Evidence of Insurance (01/31/03)/II, 209.02: "Master" or "Blanket" Policies (01/31/03)

II, 209.02: "Master" or "Blanket" Policies (01/31/03)

Many units in condo or co-op projects are covered by master or blanket policies instead of by individual policies. This also is true for some PUD units. In these cases, the servicer should maintain a copy of the current master or blanket policy and a certificate of insurance showing that the individual unit that secures the mortgage loan or co-op share loan is covered under the policy. As an alternative, the servicer may obtain from an authorized representative of the insurer individual evidence of insurance for each unit. This evidence must:

- provide for at least 10 days' notice—30 days' notice for co-ops—to the servicer if the policy is canceled or not renewed, or if any other change that adversely affects Fannie Mae's interests is made;
- include the types and amounts of coverage provided; and
- describe any endorsements that are part of the master policy.

Agency Guides/Fannie Mae Single Family/2011 Servicing Guide/Part II: Mortgage and Property Insurance/II, Chapter 2: Hazard Insurance (01/31/03)/II, 209: Evidence of Insurance (01/31/03)/II, 209.03: Data Files in Lieu of Policies (01/31/03)

II, 209.03: Data Files in Lieu of Policies (01/31/03)

With the increased usage of electronic data transfer for any number of transactions, some insurance carriers no longer issue original hazard insurance policies to mortgage loan servicers. Instead, they provide a data file that includes essential information about the insurance policies they have issued for mortgage loans serviced by the servicer. Because this data file is the source that the insurance carrier uses to issue actual policy documents, Fannie Mae will not object to a servicer accepting data files in lieu of original policies, as long as the following controls exist to ensure that Fannie Mae's interests are protected:

- The data file must include sufficient information about the insurance policy, the property, and the borrower to ensure that the servicer will be able to comply with Fannie Mae's requirements for maintaining and monitoring hazard insurance (such as reviewing the policy terms, amount of coverage, and deductible amounts; confirming that premiums have been paid; processing loss drafts; etc.).
- The servicer's errors and omissions insurance policy must acknowledge electronic data transfers (and fully protect the servicer and Fannie Mae against losses incurred as the result of erroneous data files or transfers).
- The insurance carrier must provide the servicer with written assurance that the data file is equivalent to a printed policy (typically through a detailed agreement between the two parties).
- The servicer must have in place appropriate procedures to mitigate the risks associated with not possessing an original hard copy policy (which may include obtaining certifications from the insurance carrier as to the accuracy of certain information that the servicer is required to verify).
- The servicer must be able to produce legible, hard copies of the actual insurance policies and proof of premium payments if Fannie Mae ever requests them.

Agency Guides/Fannie Mae Single Family/2011 Servicing Guide/Part II: Mortgage and Property Insurance/II, Chapter 2: Hazard Insurance (01/31/03)/II, 210: Replacement Policies (01/31/03)

II, 210: Replacement Policies (01/31/03)

The borrower can modify the existing insurance coverage (provided that the modified coverage complies with Fannie Mae's requirements) or replace it with a policy from another acceptable company. If the borrower allows the insurance coverage to lapse, the servicer should immediately obtain new coverage

that meets Fannie Mae's basic requirements. If necessary, the servicer should advance its own funds to pay the premium.

An HOA or a co-op corporation also may have its existing insurance coverage modified or replaced with a policy from another insurance company. In this case, the HOA or co-op corporation must give the servicer notice of the change so that the servicer can determine if the coverage adequately protects Fannie Mae's interests.

Agency Guides/Fannie Mae Single Family/2011 Servicing Guide/Part II: Mortgage and Property Insurance/II, Chapter 2: Hazard Insurance (01/31/03)/II, 211: Changes in Coverage (01/31/03)

II, 211: Changes in Coverage (01/31/03)

Certain things may happen to make the existing insurance coverage for a first mortgage loan inadequate to protect Fannie Mae's interests or to cause Fannie Mae to be overinsured in some cases. When either situation occurs, the coverage should be changed.

Examples of situations that require changes in coverage include the following:

- When a property becomes vacant, the servicer should add the proper endorsement to change a homeowner's policy to a fire and extended coverage policy.
- When the renovation or construction work is completed for a home renovation mortgage loan, any hazard insurance that was based on the as-is value of the improvements undergoing renovation must be increased to meet Fannie Mae's standard insurance requirements.
- When the construction is completed for a combination construction/permanent mortgage loan—or when the borrower occupies the property, if that occurs before completion of construction—construction site insurance must be replaced by hazard (and, if applicable, flood) insurance coverage that satisfies Fannie Mae's standard insurance requirements.

Agency Guides/Fannie Mae Single Family/2011 Servicing Guide/Part II: Mortgage and Property Insurance/II, Chapter 2: Hazard Insurance (01/31/03)/II, Ch 2, Exhibit 1: Formula for Determining Amount of Required Hazard Insurance Coverage (09/30/96)

II, Ch 2, Exhibit 1: Formula for Determining Amount of Required Hazard Insurance Coverage (09/30/96)

1. Compare the insurable value of the improvements (as established by the property insurer) to the UPB of the mortgage loan.
 - a. If the insurable value of the improvements is less than the UPB, the insurable value will be the amount of coverage required.
 - b. If the UPB of the mortgage loan is less than the insurable value of the improvements, go to Step 2.
2. Calculate 80% of the insurable value of the improvements.
 - a. If the result of this calculation is equal to or less than the UPB of the mortgage loan, the UPB will be the amount of coverage required.
 - b. If the result of this calculation is greater than the UPB of the mortgage loan, this calculated figure will be the amount of coverage required.

Examples:

Category	Property A	Property B	Property C
Insurable Value	\$90,000	\$100,000	\$100,000
Unpaid Balance	\$95,000	\$90,000	\$75,000
80% Insurable Value	----	\$80,000	\$80,000
Required Coverage	\$90,000	\$90,000	\$80,000
Calculation Method	Step 1a	Step 2a	Step 2b

Agency Guides/Fannie Mae Single Family/2011 Servicing Guide/Part II: Mortgage and Property Insurance/II, Chapter 3: Flood Insurance (01/31/03)/II, Chapter 3: Flood Insurance (01/31/03)

II, Chapter 3: Flood Insurance (01/31/03)

Fannie Mae requires that any mortgage loan secured by a property located in a Special Flood Hazard Area have adequate flood insurance when the mortgage loan is originated and that the coverage be maintained for as long as the mortgage loan is outstanding or as long as the property is in a Special Flood Hazard Area. Fannie Mae also requires flood insurance coverage for a mortgage loan if the remapping of a flood zone results in the security property being in a Special Flood Hazard Area (even though no flood insurance would have been required when the mortgage loan was originated). This means that a servicer must actively monitor all flood map and community status changes and take appropriate action as changes occur. A servicer does not have to review all of the mortgage loans it services for Fannie Mae for each flood map it changes, but needs to review only those mortgage loans affected by the remapping. A servicer may choose to monitor flood zone remappings itself or may use a flood zone determination company to perform the monitoring.

A servicer must make sure that the properties that secure mortgage loans it services for Fannie Mae are adequately protected by flood insurance when it is required, with no lapses of coverage for any reason. Because the maximum level of coverage available under the National Flood Insurance Program (NFIP) may increase from time to time, a servicer will need to review the coverage of the mortgage loans it services for Fannie Mae when such changes occur to determine whether additional coverage needs to be obtained for mortgage loans that are under-insured as the result of the coverage amount having been capped by the previous maximum limitations.

It is also important for a servicer that acquires Fannie Mae–owned or Fannie Mae–securitized mortgage loans through a transfer of servicing to have in place appropriate procedures for performing due diligence with respect to flood insurance coverage and the monitoring of changes in flood maps and community designations.

Agency Guides/Fannie Mae Single Family/2011 Servicing Guide/Part II: Mortgage and Property Insurance/II, Chapter 3: Flood Insurance (01/31/03)/II, 301: Payment of Flood Insurance Premiums (01/31/03)

II, 301: Payment of Flood Insurance Premiums (01/31/03)

The servicer of a first mortgage loan must ensure that the premiums required to ensure the continuation of flood insurance coverage are paid. To do this, the servicer should use the funds in the borrower's escrow deposit account. If the deposit account balance is not sufficient to pay the premiums, the servicer should either get the necessary funds from the borrower or advance its own funds. When the servicer has waived the escrow deposit account for a specific borrower, it remains responsible for the timely payment of the flood insurance premiums. Therefore, if the borrower fails to pay a premium, the servicer must advance its own funds to pay the past-due premium (or to obtain substitute coverage, if necessary), revoke the waiver, and begin escrow deposit collections to pay future premiums. (also see *Chapter 6, Lender-Placed Property Insurance*)

The servicer of a second mortgage loan generally does not pay flood insurance renewal premiums because the renewal premiums are usually paid from an escrow deposit account that the servicer of the first mortgage loan maintains. However, if that servicer does not maintain an escrow deposit account, either the borrower or the second mortgage loan servicer must pay the renewal premiums. When the borrower is responsible for paying the renewal premiums, the second mortgage loan servicer must obtain satisfactory evidence that the premium has been paid. If the borrower fails to pay the premium (or if the second mortgage loan servicer is maintaining an escrow deposit account, but the account balance is not sufficient to pay the full amount due), the second mortgage loan servicer may have to advance its own funds to pay the premium to ensure the continuation of the coverage. The second mortgage loan servicer should immediately begin requiring escrow deposits to cover future renewal premiums whenever the borrower fails to pay premiums he or she is obligated to pay. In addition, should the second mortgage loan servicer discover, at any time, that the property is not covered by a flood insurance policy, it must obtain the required coverage to protect Fannie Mae's interests. In this case, all of Fannie Mae's insurance requirements that relate to coverage for a first mortgage loan must be met.

Agency Guides/Fannie Mae Single Family/2011 Servicing Guide/Part II: Mortgage and Property Insurance/II, Chapter 3: Flood Insurance (01/31/03)/II, 302: Special Flood Hazard Areas (01/31/03)

II, 302: Special Flood Hazard Areas (01/31/03)

Fannie Mae generally requires flood insurance for any property that has any of its improvements located in a Special Flood Hazard Area. A servicer may determine whether the property improvements are located in one of these areas by using a *Standard Flood Hazard Determination* (FEMA Form 81-93). Special Flood Hazard Areas—those designated as A, AE, AH, AO, AR, AI-30, A-99, V, VE, VO, or VI-30—are shaded on a Flood Hazard Boundary Map and identified on a Flood Insurance Rate Map (FIRM). The location of the principal structure is of most importance in determining whether flood insurance is required:

- If **any** part of the principal structure is located within a Special Flood Hazard Area, flood insurance is required. Detached buildings—such as stand-alone garages, sheds, or greenhouses—are not considered part of the principal structure, although flood insurance may be required for them if they also serve as a part of the security for the mortgage loan.
- If the principal structure on a property is **not** located in a Special Flood Hazard Area, flood insurance generally will not be required even if another detached structure is located within the Special Flood Hazard Area. However, if the detached structure is attached to the land and serves as part of the security for the mortgage loan, flood insurance will be required for the detached structure (and may be purchased through a separate policy on a general property insurance form)—unless the servicer determines that the principal structure represents sufficient security for the mortgage loan and releases the detached dwelling from the security.

Agency Guides/Fannie Mae Single Family/2011 Servicing Guide/Part II: Mortgage and Property Insurance/II, Chapter 3: Flood Insurance (01/31/03)/II, 303: Acceptable Flood Insurance Policies (01/31/03)

II, 303: Acceptable Flood Insurance Policies (01/31/03)

Flood insurance generally should be in the form of the standard policy issued under the NFIP. The Policy Declaration page of a policy is acceptable evidence of flood insurance coverage. Policies that meet NFIP requirements—such as those issued by licensed property and casualty insurance companies that are authorized to participate in NFIP's "Write Your Own" program—will be acceptable.

Agency Guides/Fannie Mae Single Family/2011 Servicing Guide/Part II: Mortgage and Property Insurance/II, Chapter 3: Flood Insurance (01/31/03)/II, 304: Coverage for First Mortgage Loans (05/25/06)

II, 304: Coverage for First Mortgage Loans (05/25/06)

The minimum amount of flood insurance required for most first mortgage loans secured by one- to four-unit properties, individual PUD units, and individual condo units (such as those in detached condos, townhouses, or rowhouses) is the lower of:

- 100% of the replacement cost of the insurable value of the improvements;
- the maximum insurance available from the NFIP, which is currently \$250,000 per dwelling; or
- the UPB of the mortgage loan.

For a HomeStyle Renovation mortgage or a HomeStyle Construction-to-Permanent mortgage, the flood insurance coverage should be in an amount equal to the as-is value of the property. This coverage must be increased, if necessary, following completion of the renovation or construction work to ensure that the coverage meets Fannie Mae's standard coverage requirements.

Unless a higher maximum deductible amount is required by state law, the maximum allowable deductible for a flood insurance policy for a first mortgage loan is the maximum deductible available from the NFIP, which is currently \$5,000.

Fannie Mae generally does not require separate flood insurance policies for the individual units in a condo project. Instead, the HOA is required to obtain a Residential Condominium Building Association Policy for each building that is located in a Special Flood Hazard Area. If an HOA refuses to obtain the required coverage, Fannie Mae requires the unit owner to obtain a separate policy to cover his or her individual unit. The coverage required for the individual unit should be based on the coverage requirement for first mortgage loans secured by one- to four-unit properties specified above. Fannie Mae does not require the owners of co-op units to obtain individual flood insurance policies.

Agency Guides/Fannie Mae Single Family/2011 Servicing Guide/Part II: Mortgage and Property Insurance/II, Chapter 3: Flood Insurance (01/31/03)/II, 305: Coverage for Second Mortgage Loans (05/25/06)

II, 305: Coverage for Second Mortgage Loans (05/25/06)

The amount of flood insurance required for a second mortgage loan depends on whether the property is already covered by a flood insurance policy or, if it is not, on whether Fannie Mae has an ownership interest in the first mortgage loan.

- If a property is already covered by a flood insurance policy because the holder of the first mortgage loan required the coverage, the servicer should review the coverage to ensure that it provides the minimum amount of coverage for first mortgage loans specified in *Section 304, Coverage for First Mortgage Loans (05/25/06)* (using the combined UPBs of both the first and second mortgage loans to make the determination). If the existing coverage does not meet this requirement, the servicer must require the borrower to obtain appropriate endorsements to bring the coverage into line with Fannie Mae's requirements and name Fannie Mae (or the second mortgage loan servicer) as the second mortgagee. The servicer should then send a copy of the endorsements to the servicer of the first mortgage loan.
- If a property is not covered by a flood insurance policy because the holder of the first mortgage loan did not require flood insurance coverage (and Fannie Mae does not have an interest in the first mortgage loan), the servicer should require the borrower to obtain a flood insurance policy that will cover at least the UPB of the second mortgage loan (or the maximum coverage available under the NFIP) and name Fannie Mae (or the second mortgage loan servicer) as the mortgagee.

- If a property for which Fannie Mae has an interest in the first mortgage loan is not covered by flood insurance because none was required when Fannie Mae purchased or securitized the first mortgage loan, and the property improvements are now considered to be in a Special Flood Hazard Area, the servicer must require the borrower to obtain flood insurance coverage in the minimum amount specified in *Section 304, Coverage for First Mortgage Loans (05/25/06)* (using the combined UPBs of both the first and second mortgage loans to make the determination) and name Fannie Mae (or the first and second mortgage loan servicers) as mortgagee.

Unless a higher maximum deductible amount is required by state law, the maximum allowable deductible for a flood insurance policy for a second mortgage loan is the maximum deductible available from the NFIP, which is currently \$5,000.

Agency Guides/Fannie Mae Single Family/2011 Servicing Guide/Part II: Mortgage and Property Insurance/II, Chapter 3: Flood Insurance (01/31/03)/II, 306: Coverage for Project Developments (01/31/03)/II, 306: Coverage for Project Developments (01/31/03)

II, 306: Coverage for Project Developments (01/31/03)

If a first mortgage loan is secured by a unit in a PUD, condo, or co-op project and any part of the improvements are in a Special Flood Hazard Area, the servicer must verify that the HOA or co-op corporation is maintaining a master or blanket policy of flood insurance and providing for premiums to be paid as a common expense.

Agency Guides/Fannie Mae Single Family/2011 Servicing Guide/Part II: Mortgage and Property Insurance/II, Chapter 3: Flood Insurance (01/31/03)/II, 306: Coverage for Project Developments (01/31/03)/II, 306.01: PUD Projects (05/25/06)

II, 306.01: PUD Projects (05/25/06)

The policy for a PUD project should cover any common element buildings and any other common property located within the designated hazard area. The amount of insurance should be at least equal to the lesser of 100% of the insurable value of the facilities or the maximum coverage available under the NFIP.

Unless a higher maximum deductible amount is required by state law, the maximum deductible amount for policies covering PUD common areas and elements is the maximum deductible available from the NFIP, which is currently \$25,000.

Agency Guides/Fannie Mae Single Family/2011 Servicing Guide/Part II: Mortgage and Property Insurance/II, Chapter 3: Flood Insurance (01/31/03)/II, 306: Coverage for Project Developments (01/31/03)/II, 306.02: Condo Projects (05/25/06)

II, 306.02: Condo Projects (05/25/06)

The policy for a condo project should cover common element buildings and any other common property located within the designated hazard area. For most condo projects, the amount of coverage should be at least equal to the lesser of 100% of the insurable value of each insured building (including all common elements and property) or the maximum coverage available under the NFIP. Fannie Mae requires the HOA to obtain a Residential Condominium Building Association policy for each building that is located in a Special Flood Hazard Area. This policy must cover all of the common elements and property, as well as each of the individual units in the building. The amount of this required coverage consists of three components—(1) building coverage, which should equal 100% of the insurable value of the common elements and property (including machinery and equipment that are part of the building), (2) contents coverage, which should equal 100% of the insurable value of all contents (including machinery and equipment that are not part of the building) that are owned in common by the association members, and (3)

coverage for each unit, which should be the lesser of \$250,000 or the amount of its replacement cost. If the total required coverage exceeds the maximum coverage available for condo projects under the NFIP, Fannie Mae will accept coverage equal to the maximum amount that is available. When an HOA refuses to obtain a Residential Condominium Building Association policy, a separate policy must be obtained for each dwelling unit that secures a Fannie Mae–owned or Fannie Mae–securitized mortgage loan. The coverage required for the individual unit should be based on the coverage requirement for first mortgage loans secured by one- to four-unit properties specified in *Section 304, Coverage for First Mortgage Loans (05/25/06)*.

Unless a higher maximum deductible amount is required by state law, the maximum deductible amount for policies covering condo common elements or each building in a high-rise or vertical condo project is the maximum deductible available from the NFIP, which is currently \$25,000.

Agency Guides/Fannie Mae Single Family/2011 Servicing Guide/Part II: Mortgage and Property Insurance/II, Chapter 3: Flood Insurance (01/31/03)/II, 306: Coverage for Project Developments (01/31/03)/II, 306.03: Co-op Projects (05/25/06)

II, 306.03: Co-op Projects (05/25/06)

The policy for a co-op project should cover the buildings and any common elements and property located within a Special Flood Hazard Area. A separate policy must be obtained for each building. The policy must cover the building and any common elements and property (including machinery and equipment) that are owned in common by the shareholders of the co-op corporation. The amount of insurance should be at least equal to the lesser of 100% of the insurable value of each insured building (including all common elements and property) or the maximum coverage available under the NFIP. If the amount of required coverage exceeds the maximum coverage available under the applicable NFIP, Fannie Mae will accept coverage equal to the maximum amount that is available.

Unless a higher maximum deductible amount is required by state law, the maximum deductible amount for policies covering each co-op building and its common elements and property is the maximum deductible available from the NFIP, which is currently \$25,000.

Agency Guides/Fannie Mae Single Family/2011 Servicing Guide/Part II: Mortgage and Property Insurance/II, Chapter 3: Flood Insurance (01/31/03)/II, 307: Properties Located in the Coastal Barrier Resources System or Otherwise Protected Area (05/25/06)

II, 307: Properties Located in the Coastal Barrier Resources System or Otherwise Protected Area (05/25/06)

Properties that are located within the Coastal Barrier Resources System (CBRS) or are within an Otherwise Protected Area (OPA), as defined by the Coastal Barrier Resources Act, may not be eligible for Federal flood insurance. When a servicer (or a flood zone determination company) determines that a property is located within the CBRS or is within an OPA, private flood insurance is acceptable. The servicer must work with the borrower to obtain the required flood insurance as quickly as possible.

Fannie Mae will accept flood insurance policies from private insurance carriers when a property securing a mortgage loan within the CBRS or within an OPA is not eligible for Federal flood insurance. The amount of the flood insurance required must meet Fannie Mae's minimum coverage requirements for the appropriate property type as specified in *Section 304, Coverage for First Mortgage Loans (05/25/06)*; *Section 305, Coverage for Second Mortgage Loans (05/25/06)*; and *Section 306, Coverage for Project Developments (01/31/03)*.

The flood insurance carrier providing coverage for a property within the CBRS or within an OPA must meet Fannie Mae's minimum rating requirements for insurance underwriters specified in *Section 202.01, Rated*

Insurance Underwriters (09/30/05).

The deductible amounts for private flood insurance policies must be no greater than the NFIP maximums based on the property type (i.e., currently a maximum of \$5,000 for one- to four-unit properties and a maximum of \$25,000 for condo, co-op, and PUD projects).

Agency Guides/Fannie Mae Single Family/2011 Servicing Guide/Part II: Mortgage and Property Insurance/II, Chapter 3: Flood Insurance (01/31/03)/II, 308: Flood Zone Remappings (01/31/03)

II, 308: Flood Zone Remappings (01/31/03)

Fannie Mae permits the borrower to discontinue flood insurance coverage if the principal structure on his or her property is no longer included in a flood zone because the flood plain has been redefined in a recent flood zone remapping. If the new flood maps are not available, the borrower must obtain a letter from the Federal Emergency Management Agency (FEMA) stating that its maps have been amended so that the principal structure is no longer in a Special Flood Hazard Area.

When a servicer (or a flood zone determination company) determines that a property has been remapped into a Special Flood Hazard Area, the servicer must work with the borrower to obtain the required flood insurance as quickly as possible—the flood insurance policy should be in place within 120 days after the effective date of the remapping.

- If the community in which the property is located is a “participating” community under the NFIP, the servicer must obtain the required coverage even if the borrower refuses to obtain the required coverage or to pay a disputed premium. The servicer should make every effort to collect the applicable premium from the borrower, but, if it is unable to do so, Fannie Mae will reimburse the servicer for the cost of the flood insurance policy. Fannie Mae will then advise the servicer about whether any of the remedies permitted under the mortgage loan should be pursued against the borrower.
- If the community in which a remapped property is located is not a “participating” community under the NFIP, the servicer should assist the borrower in locating a private insurance carrier that can underwrite an acceptable flood insurance policy. If acceptable insurance coverage cannot be obtained, the servicer must contact its Portfolio Manager, Servicing Consultant, or the National Servicing Organization’s Servicer Solutions Center at 1-888-326-6435 to determine the course of action Fannie Mae wants taken.

Agency Guides/Fannie Mae Single Family/2011 Servicing Guide/Part II: Mortgage and Property Insurance/II, Chapter 4: Special Coverage for Project Developments (01/31/03)/II, Chapter 4: Special Coverage for Project Developments (01/31/03)

II, Chapter 4: Special Coverage for Project Developments (01/31/03)

When a first mortgage loan is secured by a PUD, co-op, or condo unit, Fannie Mae requires that the project development be covered by liability insurance and, in most cases, fidelity insurance. Fannie Mae does not require fidelity insurance coverage for Type A condo projects; for Type E established PUD projects; for Type F new PUD projects that consist of detached dwellings only, or those that consist of both attached and detached dwellings if the mortgage loan Fannie Mae holds is secured by a detached dwelling; or for any other PUD, condo, or co-op project that consists of 20 or fewer units.

Agency Guides/Fannie Mae Single Family/2011 Servicing Guide/Part II: Mortgage and Property Insurance/II, Chapter 4: Special Coverage for Project Developments (01/31/03)/II, 401: Liability Insurance (01/31/03)

II, 401: Liability Insurance (01/31/03)

The HOA or co-op corporation for a PUD, condo, or co-op project must maintain a comprehensive general liability insurance policy covering the entire project. For PUD or condo projects, the policy also should cover all common areas and elements, public ways, and any other areas that are under the supervision of the HOA. The insurance also should cover commercial spaces that are owned by the HOA (or co-op corporation), even if they are leased to others. The commercial general liability insurance policy should provide coverage for bodily injury and property damage that result from the operation, maintenance, or use of the project's common areas and elements.

The amount of coverage should be at least \$1 million for bodily injury and property damage for any single occurrence. However, the minimum coverage that Fannie Mae requires for co-op projects that consist of elevator buildings is \$3 million. Fannie Mae may require higher amounts of coverage if similar amounts usually are required by mortgage investors in other projects in the area.

If the policy does not include "severability of interest" in its terms, Fannie Mae requires a specific endorsement to preclude the insurer's denial of a unit owner's claim because of negligent acts of the HOA (or co-op corporation) or of other unit owners.

The policy should provide for at least ten days' written notice to the HOA (or co-op corporation) before the insurer can cancel or substantially modify it. For condo and co-op projects, similar notice also must be given to each holder of a first mortgage loan or share loan on an individual unit in the project.

Agency Guides/Fannie Mae Single Family/2011 Servicing Guide/Part II: Mortgage and Property Insurance/II, Chapter 4: Special Coverage for Project Developments (01/31/03)/II, 402: Fidelity Insurance (01/31/03)

II, 402: Fidelity Insurance (01/31/03)

The HOA (or co-op corporation) for any PUD, co-op, or condo project development for which Fannie Mae requires fidelity insurance coverage must have blanket fidelity insurance coverage for anyone who handles (or is responsible for) funds held or administered by the HOA or co-op corporation, whether or not that individual receives compensation for services. The insurance policy should name the HOA (or co-op corporation) as the insured and the premiums should be paid as a common expense by the HOA (or co-op corporation). The policy for a condo project must include a provision that calls for ten days' written notice to the HOA (or its insurance trustee) before the policy can be canceled or substantially modified for any reason. This same notice must also be given to each servicer that services a Fannie Mae–owned or Fannie Mae–securitized mortgage loan in the condo project.

A management agent that handles funds for the HOA (or co-op corporation) should be covered by its own fidelity insurance policy, which must provide the same coverage required of the HOA (or co-op corporation).

The fidelity insurance policy should cover the maximum funds that will be in the custody of the HOA (or co-op corporation) or its management agent at any time while the policy is in force. A lesser amount of fidelity insurance coverage is acceptable for a project if the project's legal documents require the HOA (or co-op corporation) and any management company to adhere to certain financial controls. Even then, the fidelity insurance coverage must at least equal the sum of three months of assessments on all units in the project. In those states that have statutory fidelity insurance requirements, Fannie Mae will accept the state fidelity insurance requirements in place of Fannie Mae's.

If reduced coverage based on greater financial controls is accepted, the financial controls must take one or more of the following forms:

- The HOA (or co-op corporation) or the management company must maintain separate bank accounts

for the working account and the reserve account, each with appropriate access controls, and the bank in which funds are deposited must send copies of the monthly bank statements directly to the HOA (or co-op corporation);

- The management company must maintain separate records and bank accounts for each HOA (or co-op corporation) that uses its services and the management company must not have the authority to draw checks on—or to transfer funds from—the HOA's (or co-op corporation's) reserve account; or
- Two members of the Board of Directors must sign any checks written on the reserve account.

Agency Guides/Fannie Mae Single Family/2011 Servicing Guide/Part II: Mortgage and Property Insurance/II, Chapter 5: Insurance Losses (08/24/05)/II, Chapter 5: Insurance Losses (08/24/05)

II, Chapter 5: Insurance Losses (08/24/05)

A servicer is responsible for taking prompt action to protect the interests of Fannie Mae and the borrower(s) when a hazard or flood insurance loss occurs. This involves working closely with the insurance carrier (for insured losses), the borrower, repair contractors, and other lienholders.

The servicer of a **first** mortgage loan is responsible for helping the borrower determine the nature of the needed repairs, getting the necessary bids, and reviewing and approving the final plans for repair. As repairs are made, the servicer must inspect the repairs to see that they comply with the final plans and obtain the proper lien releases.

The servicer of a **second** mortgage loan is responsible for ensuring that all of these same actions are taken—either by performing the required actions itself, by relying on the first mortgage loan servicer to take the necessary actions, or by working jointly with the first mortgage loan servicer to share the responsibility.

Fannie Mae's requirements for casualty losses due to natural disasters are discussed in *Part III, Chapter 11, Assistance in Disasters*.

Agency Guides/Fannie Mae Single Family/2011 Servicing Guide/Part II: Mortgage and Property Insurance/II, Chapter 5: Insurance Losses (08/24/05)/II, 501: Insurance Claim Settlements (08/24/05)/II, 501: Insurance Claim Settlements (08/24/05)

II, 501: Insurance Claim Settlements (08/24/05)

As soon as the servicer learns of a casualty loss, it must get complete details on the damage, determine whether the borrower has filed the proof of loss claim, and discuss with the borrower any plans that he or she has for repairing the property. If the borrower has not filed a proof of loss claim, the servicer should take appropriate action to ensure that the proof of loss claim is filed within the time period specified in the insurance policy in order to avoid a delay in receiving payment of the claim. The servicer must then closely monitor the filing of the proof of loss claim with the insurance carrier, the repairs to the property, and the disbursement of the insurance proceeds. Disbursement of insurance proceeds for natural disasters is discussed in *Part III, Section 1103, Insurance Claim Settlements (08/24/05)*.

When the servicer is unable to contact the borrower (or it appears that the property has been abandoned), the servicer should determine the general extent of the damage and the required repairs, take appropriate measures to protect the property from further damage, and contact the insurance carrier to determine whether the borrower has submitted a claim. If the borrower has not filed a claim, the servicer should file a proof of loss under the standard mortgage clause and collect the insurance proceeds on Fannie Mae's behalf. Occasionally, an insurance carrier will assert a questionable legal defense to avoid paying an insurance claim related to a Fannie Mae–owned or Fannie Mae–securitized mortgage loan. If a servicer experiences unusual difficulty in collecting an insurance claim from an insurance carrier and the servicer's legal counsel has not been able to expeditiously resolve the matter with the carrier, the servicer should

contact its Portfolio Manager, Servicing Consultant, or Fannie Mae's National Servicing Organization's Servicer Solutions Center at 1-888-326-6435 for assistance.

Agency Guides/Fannie Mae Single Family/2011 Servicing Guide/Part II: Mortgage and Property Insurance/II, Chapter 5: Insurance Losses (08/24/05)/II, 501: Insurance Claim Settlements (08/24/05)/II, 501.01: Disposition of Insurance Proceeds Other Than for Natural Disasters (08/24/05)

II, 501.01: Disposition of Insurance Proceeds Other Than for Natural Disasters (08/24/05)

Fannie Mae expects a servicer to employ procedures for handling insurance loss drafts that will not only protect Fannie Mae's interest in the mortgage loans, but will also consider the effect that any delays in restoring the property or in repairing damages will have on individual borrowers. Generally, hazard and flood insurance proceeds should be applied to the restoration and repair of the damaged property—unless the borrower and the servicer enter into a written agreement to apply them in a different manner or Fannie Mae directs that they should be applied differently.

The servicer is responsible for making the decision on the disposition of hazard and flood insurance proceeds for both current and delinquent mortgage loans for losses not related to a natural disaster—as long as the property is occupied and the insured improvements have not suffered a significant loss that makes restoration infeasible or that lessens Fannie Mae's security. (Disbursement of insurance proceeds for disasters is discussed in *Part III, Section 1103, Insurance Claim Settlements (08/24/05)*.) However, the servicer must recommend to Fannie Mae an appropriate action if the mortgage loan is in foreclosure, the property has been abandoned, or the property has suffered a significant loss. The servicer also must recommend to Fannie Mae appropriate action related to flood insurance loss proceeds for any acquired property.

In most instances, the servicer should disburse the insurance proceeds to the borrower or the repair contractor when the restoration or repairs have been completed, although progress payments can be made as portions of the work have been completed and inspected. However, if the property has suffered a total or near-total loss, it may not be possible to complete the reconstruction within 90 days. When that is the case for a current mortgage loan—and the borrower has never been more than 30 days delinquent in the preceding 12 months—the servicer must first determine whether the insurance proceeds exceed the sum of the UPB, accrued interest, and any advances. If the insurance proceeds exceed the sum of the UPB, accrued interest, and any advances, the servicer must issue the borrower a check for the amount by which the insurance loss draft exceeds the UPB of the mortgage loan.

If the insurance proceeds do not exceed the sum of the UPB, accrued interest, and any advances, the servicer should:

- release up to 20% of the total claim proceeds to the borrower and contractor,
- review the contractor's estimate, and
- make a determination on how to disburse the remaining funds.

In all instances, the servicer must deposit the funds not disbursed in an interest-bearing account for the borrower's benefit. The account must yield an amount of interest that is equivalent to the interest that the borrower could expect to obtain from a passbook savings account or a money market account. The servicer does not have to pay the accumulated interest to the borrower until the end of the reconstruction period, unless he or she requests an earlier disbursement.

The servicer may use its T&I custodial account for the deposit of the remaining loss draft proceeds (if that account is interest-bearing) or it may establish a separate account in a federally insured institution that

meets Fannie Mae's requirements for custodial depositories (as long as the account reflects the interests of both the borrower and Fannie Mae). If the servicer does not use its T&I custodial account, it must nevertheless include adequate documentation for the account it uses—such as bank statements that show the Fannie Mae loan number and amount of proceeds deposited for each mortgage loan covered by the account—with its reconciliation of its T&I custodial account so that Fannie Mae can be assured that the proceeds are being adequately controlled.

Agency Guides/Fannie Mae Single Family/2011 Servicing Guide/Part II: Mortgage and Property Insurance/II, Chapter 5: Insurance Losses (08/24/05)/II, 501: Insurance Claim Settlements (08/24/05)/II, 501.02: Report of Hazard Insurance Loss (08/24/05)

II, 501.02: Report of Hazard Insurance Loss (08/24/05)

The servicer—including the servicer of a second mortgage loan that is relying on the first mortgage loan servicer to handle the insurance loss settlement—should submit a *Report of Hazard Insurance Loss* (Form 176) to Fannie Mae, with its recommendation for disposition of the insurance loss proceeds, if:

- the mortgage loan is in foreclosure (or, if the proceeds relate to flood damage, the property has been acquired through foreclosure or the acceptance of a deed-in-lieu of foreclosure),
- the insured improvements have suffered a significant loss and the servicer believes that the repair or restoration is not economically feasible or that Fannie Mae's security would be lessened because the fair market value of the property after restoration to its original condition would be less than the total indebtedness,
- the property is vacant and the servicer has filed a proof of loss with the insurance carrier on Fannie Mae's behalf under the terms of the standard mortgage clause, or
- the property has sustained damage caused by a disaster. Refer to *Part III, Section 1103, Insurance Claim Settlements (08/24/05)*.

Each Form 176 that the servicer submits to Fannie Mae must provide the following information:

- the status of the mortgage loan (or the status of both the first and second mortgage loans when the servicer is servicing a second mortgage loan for Fannie Mae)—current, delinquent, in foreclosure, property acquired;
- Fannie Mae's interest in the mortgage loan—whole mortgage loan or participation pool mortgage loan that Fannie Mae holds in its portfolio (including its percentage interest); or MBS mortgage loan serviced under the special servicing option or the shared-risk special servicing option, if Fannie Mae is responsible for disposing of the acquired property (including Fannie Mae's percentage interest if it securitized only a participation interest in the mortgage loan);
- the nature of the loss—partial, near-total, total;
- photographs of the damaged property;
- complete accounting of outstanding monies—UPB, advances, total delinquent installments, etc.;
- cost of repairs or restoration;
- any effect that a total loss would have on conveyance of the property to the insurer or guarantor or on the claim settlement;
- a recommendation on the disposition of the loss proceeds; and

- a recommendation on whether Fannie Mae should consider accepting a payoff of less than the total indebtedness in order to minimize its losses.

The Form 176 must be submitted electronically to Fannie Mae using its dedicated mailbox, hazard_loss@fanniemae.com.

Agency Guides/Fannie Mae Single Family/2011 Servicing Guide/Part II: Mortgage and Property Insurance/II, Chapter 5: Insurance Losses (08/24/05)/II, 502: Uninsured Losses (08/24/05)

II, 502: Uninsured Losses (08/24/05)

Uninsured losses related to disasters are discussed in *Part III, Section 1104, Uninsured Losses (08/24/05)*.

When there are other uninsured losses to the property, the servicer of a **first** mortgage loan should

- determine the extent of the damage,
- secure the property, if it is abandoned,
- develop plans for repairing the property, and
- send a complete report of the damage to its Fannie Mae Portfolio Manager, Servicing Consultant, or the National Servicer Organization's Servicer Solutions Center.

The servicer for a **second** mortgage loan should work with the first mortgage loan servicer in determining the extent of the damage, securing an abandoned property, and developing plans for repairing the property. The second mortgage loan servicer should then send a complete report of the damage and any repair plans that were developed to its Fannie Mae Portfolio Manager, Servicing Consultant, or the National Servicing Organization's Servicer Solutions Center.

The servicer should help the borrower file for any disaster relief aid that may be available. If the damage is extensive, the servicer should consider any reasonable forbearance plan or modification agreement that the borrower proposes.

Agency Guides/Fannie Mae Single Family/2011 Servicing Guide/Part II: Mortgage and Property Insurance/II, Chapter 6: Lender-Placed Property Insurance (02/01/05)

II, Chapter 6: Lender-Placed Property Insurance (02/01/05)

Part of a servicer's responsibility for protecting Fannie Mae's interest in the security property is to ensure that hazard insurance (including flood insurance), under the terms specified in Fannie Mae's *Guides*, is in place at all times. If the servicer is unable to obtain evidence of acceptable hazard insurance for a property, the servicer should obtain alternative insurance coverage (so-called "force-placed" or "lender-placed" insurance) to protect Fannie Mae's interests. In this instance, there are several guidelines that servicers should apply, subject to the provisions of and in compliance with applicable law and the mortgage loan documents.

- Lender-placed insurance coverage should only be issued after the servicer makes attempts to contact the borrower to obtain evidence of insurance. The servicer may contact the borrower's insurance agent but must attempt to contact the borrower if it fails to obtain evidence of insurance from the agent. At least one borrower communication should be by letter. Fannie Mae expects the servicer to have (or provide for) adequate resources and facilities for receiving and processing evidence of insurance that is submitted by borrowers. Typically, the borrower should have a period of at least 60 days to provide evidence of coverage before a charge for lender placement is assessed to

the borrower. It may be appropriate for this period to be extended if an apparent lapse in insurance coverage coincides with a servicing transfer. However, in all cases the servicer is responsible for ensuring that—whether through borrower-placed or lender-placed hazard insurance—there is no lapse in coverage.

The contacts with the borrower should include information explaining the ramifications of the borrower's failure to obtain coverage, including: (1) the potential that lender-placed coverage may be substantially more expensive (and that the borrower nevertheless will be required to pay for such coverage or risk being in default under the terms of the mortgage loan documents), (2) that any lender-placed coverage might not cover the borrower as an insured, the borrower's equity, or provide the same scope of coverage as the borrower's normal homeowner's insurance (for instance, no coverage for personal effects or premises liability), and (3) that the servicer or one of its affiliates may be paid a commission for its placement of the replacement insurance coverage, if applicable.

- Any lender-placed coverage must be provided in compliance with Fannie Mae's insurance requirements. Fannie Mae recognizes that lender-placed insurance premiums typically are paid on an annual basis in advance so that a borrower would be assessed a year's lump-sum premium. If the servicer becomes aware that the borrower may not be able to fulfill that lump-sum payment obligation, the servicer should advance the payments and establish a schedule for the pro rata recovery of the premium from the borrower over the succeeding 12 months, or longer if the servicer so elects. The servicer also should provide for the collection of the premium installment for the next renewal period based on the required rescission of the escrow account waiver (see *Part III, Section 103.01, Waiver of Escrow Deposits (01/01/05)*). If, however, it appears that the borrower will not be able to meet even this obligation, other loss mitigation options should be pursued to arrange for the collection of outstanding amounts owed. (see *Part VII, Chapter 5, Bankruptcy Proceedings*, for Fannie Mae's loss mitigation alternatives)
- In the event the borrower provides evidence of acceptable insurance coverage, the total amount of any premiums for lender-placed insurance attributable to the period of time after the effective date of the borrower-placed coverage (along with any late charges assessed due to the nonpayment of any lender-placed insurance premium) must be refunded or credited to the borrower within a reasonable time frame.