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31A.1: Chapter overview, general insurance requirements and insurance terms (07/01/11)

This chapter states the requirements for the Borrower's insurance and insurance for third party consultants and inspectors.

At all times during the term of the Mortgage, the Seller/Servicer must:

- Ensure that the Property is covered by all insurance policies required by the Purchase and Servicing Documents
- Ensure that the Borrower complies with all other insurance requirements mandated by federal, State, and local laws
- Arrange for all insurance notices, policies, invoices and correspondence relating to any insurance policy to be delivered directly to the Seller/Servicer

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31A.1(a): Contents of this chapter (07/01/11)

Topic	Sections
General requirements, chapter contents, types of insurance policies and list of insurance terms	31A.1
Borrower's property damage insurance	31A.2 through 31A.15
Borrower's general liability insurance	31A.16
Cooperative (Co-op) Borrower's fidelity coverage and directors' and officers' liability insurance	31A.17 and 31A.18
Insurance documentation for underwriting and final delivery	31A.19 through 31A.21
Verification of continuing property and liability insurance and reinstatement of coverage	31A.20 through 31A.23
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31A.1(b): Types of insurance policies (07/01/11)

The required insurance coverage may be provided by one individual policy, separate individual policies, one or more Blanket Insurance policies, a master program, or any combination of these. Coverage may also be added to a policy through endorsements or riders. Regardless of the form, each policy, endorsement or rider must show the complete address of the Property.

Blanket Insurance may be provided by an individual policy or a master program. Blanket Insurance provides one “per occurrence” (per peril) limit of coverage for two or more properties. For example, a Blanket Insurance policy may provide the following insurance coverage:

Address	Replacement Cost of the property	Per occurrence property limit
123 Main St.	$50 million	$90 million applies to all properties per occurrence. In this example, if all of the properties are destroyed by the same occurrence (fire, windstorm, etc.) then the maximum that the insurance company will pay on the claim is $90 million.
125 Main St.	$25 million	
127 Main St.	$40 million	

Specific Insurance may be provided through an individual policy or a master program. Specific Insurance provides separate property insurance limits that apply to each type of covered property interest (building, personal property, business income, etc.) at each covered location. For example, Specific Insurance provided through an individual policy may provide the following insurance coverage:

Address	Property damage insurance	Business Income/Rental Value Insurance
123 Main St.	$50 million	12 months anticipated gross income

Specific Insurance provided through a master program may provide the following insurance coverage:

Address	Property damage insurance	Business Income/Rental Value Insurance
123 Main St.	$50 million	12 months anticipated gross income
321 Elm St.	$25 million	12 months anticipated gross income
567 Maple St.	$40 million	12 months anticipated gross income

Some property insurance programs may combine the following elements of both Specific and Blanket Insurance:

- A specific limit on each Property, which is the maximum amount of insurance available for that Property, and
- A per occurrence or per loss limit, which is the maximum amount of insurance available for two or more properties damaged by the same event.

Such property insurance programs must comply with the applicable requirements in the Purchase and Servicing Documents for both Specific Insurance and Blanket Insurance.

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31A.1(c): Other insurance terms used in this chapter (07/01/11)

Other insurance terms when used in this chapter have the following meanings:

1. **Agreed Amount provision**

   The Borrower and the insurance company agree that if the Property is insured for a specified dollar amount, the Coinsurance Clause will be offset or suspended.

2. **Coinsurance Clause**

   The Coinsurance Clause requires the Property to be insured for a specific percentage of the Property's Replacement Cost (typically 80, 90 or 100 percent) in exchange for a lower rate. If, at the time of loss, it is determined that the insurance purchased is less than the insurance required by the Coinsurance Clause, the loss recovery will be limited to the same percentage of loss as the ratio of the insurance amount carried to the insurance amount required.

3. **Joint Loss Agreement**

   Where the property damage policy and the Boiler and Machinery policy are provided by different insurance companies, an endorsement added to both the property damage policy and the Boiler and Machinery policy that requires the respective insurance companies to each pay 50 percent of any claim covered by both policies. This agreement is typically a "no cost" policy improvement that insurance companies readily provide. A Joint Loss Agreement can minimize intercompany disputes should a claim arise.

4. **Replacement Cost**

   The Replacement Cost is the cost to reconstruct a Property

   - Of an equal number of units
   - With equal quality of building materials
   - With equal utility
   - That would be acceptable to the typical investor and tenant in the market in which the Property is located.

   Replacement Cost is not the cost to construct a replica of the Property.

   For insurance purposes the Replacement Cost may not include

   - Goodwill or other intangibles
   - Value/cost of the land
   - A deduction for depreciation

   Additionally, and to the extent that the Replacement Costs of the following items are provided, these costs should not be included in Replacement Cost:

   - Cost to reconstruct the foundation(s). (However, when determining the Replacement Cost of a Property for flood insurance, the Replacement Cost must include the cost to repair or replace the foundation and supporting structures)
   - Cost of site improvements, such as driveways, parking lots, sidewalks, and landscaping

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31A.2: General requirements for Borrower's property damage and general liability insurance (05/07/07)

As of the Freddie Mac Funding Date and throughout the term of the Mortgage, the Seller/Servicer must ensure that the Borrower has in force property damage and liability insurance coverage for the Property, including Cooperatives (Co-ops), that meets the requirements of the Purchase and Servicing Documents.

All property damage and general liability insurance forms and policies must provide coverage that is equivalent to the coverage contained in the Insurance Service Office (ISO) forms and policies.

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31A.2(a): Acceptable forms (07/01/11)

The standard ISO "Causes of Loss – Special" Form or "All Risk" and the Commercial General Liability form are acceptable forms of property damage and liability insurance, respectively.

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31A.2(b): Insurance term (07/01/11)

Generally, insurance policies are written for a term of 12 months. However, Freddie Mac will permit a policy of any term, as long as the policy meets all other requirements. If the policy will expire within 90 days of submission of the full underwriting package, the Freddie Mac Funding Date or any date related to special insurance arrangements made with Freddie Mac *Multifamily Asset Management, Low Risk Loans*, as applicable, the Seller/Servicer must provide the *Applicable Freddie Mac Multifamily Regional Office* or Freddie Mac *Multifamily Asset Management, Low Risk Loans*, with an insurance certificate, ACORD, binder, letter or other acceptable documentation from the insurance broker, agent or company stating that the policy is eligible for renewal. See Section 31A.22 for additional information on renewals.

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31A.2(c): Escrow (07/01/11)

Unless otherwise set forth in the Mortgage Documents or otherwise deferred by Freddie Mac, the Servicer must collect sufficient funds on the Origination Date and through subsequent monthly Escrow payments to pay the premiums for all insurance policies required in the Purchase and Servicing Documents. The Servicer must also escrow an additional amount of the estimated cost of such premiums, if required by the Mortgage Documents. If National Flood Insurance Program (NFIP) flood insurance is required, the

Seller/Servicer must escrow for the NFIP flood insurance if the Seller/Servicer escrows for other insurance on the Property.

Unless Freddie Mac has deferred the collection of the Escrow for insurance premiums for Blanket Insurance policies, master programs, and liability insurance policies covering multiple properties, the Seller/Servicer must either:

- Escrow for the premium allocation obtained from the insurance agent or broker, for each Property securing a Freddie Mac Mortgage that is insured under the applicable policy and serviced by the Servicer to ensure that the Servicer will have sufficient funds in the Escrow account to pay the allocated premium due on the applicable policy or policies, or

- Escrow for an amount sufficient to purchase an individual insurance policy or policies providing Specific Insurance.

If the Servicer collects Escrows for insurance premiums, the Servicer must pay the premiums for all required insurance when due.

If the Servicer does not maintain an Escrow account for insurance premiums, the Seller/Servicer must ensure that the Borrower has made the payments as required in Section 31A.2(g).

See Section 39.1 for additional information regarding Escrows and payments.

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31A.2(d): Named insured (05/07/07)

The named insured in each policy must be the Borrower or the Borrower Principal. If the Borrower Principal is the named insured, the Borrower must be named as an additional insured.

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31A.2(e): Mortgagee clause and additional insured (07/01/11)

Each property damage policy (including all perils within the scope of “Causes of Loss – Special Form” or “All Risk” policy, and any other cause for which Freddie Mac requires or may require property damage insurance) required by the Purchase and Servicing Documents must contain a standard mortgagee or mortgage holders clause.

Each general liability policy (including commercial general liability (CGL), umbrella liability and excess liability) required by the Purchase and Servicing Documents must contain a standard additional insured provision.

Freddie Mac must not be named as an additional insured in any professional liability insurance policies, including a primary, excess and/or umbrella professional liability insurance policy for a Seniors Housing Mortgage with assisted living, Alzheimer’s care, and/or skilled nursing units.

Except as noted above, the mortgagee (for a property damage policy) and additional insured (for a liability policy) in the Borrower's insurance policies must be designated as shown in the following example:

FREDDIE MAC its successors and assigns
C/O NAME OF SELLER/SERVICER
100 MAIN STREET
HOMETOWN USA 12345

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31A.2(f): Cancellation clause (01/31/11)

Unless required otherwise by State law, each property damage policy must provide that the insurer will notify the named mortgagee in writing at least 10 days before cancellation of the policy for nonpayment of the premium or nonrenewal, and at least 30 days before cancellation for any other reason.

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31A.2(g): Proof of payment (07/01/11)

The Seller/Servicer must ensure that the Borrower:

- Has paid all initial insurance policy premiums in full prior to final delivery of the Mortgage to Freddie Mac, and

- Pays all insurance premiums for all renewals (or new policies, as applicable) in advance of the due date throughout the term of the Mortgage, unless the Servicer collects Escrows for insurance in accordance with Section 31A.2(c).

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31A.3(a): Standard insurance carrier ratings (07/01/11)

Each insurance carrier providing property damage and/or liability insurance, whether admitted or non-admitted, must fall into one of the acceptable Financial Size Categories and meet the applicable minimum Financial Strength Rating for A.M. Best and, if the aggregate carrier exposure is greater than $25 million, the minimum rating from one of the following: Fitch, Inc., Standard & Poor's Rating Services, or Moody's Investors Service. Details are in the chart below.

STANDARD INSURANCE CARRIER RATINGS AND FINANCIAL SIZE CATEGORIES					
Aggregate Carrier Exposure	**Minimum A.M. Best Financial Strength Rating**	**AND**	**Minimum A.M. Best Financial Size Category**	**AND**	**Minimum Rating from: Fitch Inc., Standard & Poor's Rating Services, or Moody's**

					Investors Service Inc.
≤ $5 million	A-	AND	VII	N/A	Not applicable
> $5 million & ≤ $25 million	A-	AND	VIII	N/A	Not applicable
> $25 million	A-	AND	IX	AND	• A- or its equivalent by Fitch Inc. • A- or its equivalent by Standard & Poors Ratings Services • A3 or its equivalent by Moody's Investors Service Inc.

Standard insurance carrier rating requirements and minimum financial size categories are based on the aggregate carrier exposure, which is defined in the chart below.

Aggregate Carrier Exposure (for each individual carrier)		
Insurance type		**Aggregate Carrier Exposure**
Property damage insurance	Specific Insurance or policy for one Property	Required building coverage limits + required Business Income/Rental Value Insurance
	Blanket Insurance or master program from one carrier	Blanket Insurance or master program limit
	An individual policy, Blanket Insurance or master program with more than one carrier participating with layered limits	Total limit provided by the carrier in all layers in which the carrier participates
Liability insurance	Specific Insurance or policy for one Property	Total aggregate limits (general liability + excess/umbrella)
	Liability insurance for multiple properties, or master program from one carrier	Total aggregate limits (general liability + excess/umbrella)
	An individual policy, liability insurance policy for multiple properties or master program with more than one carrier participating with layered limits	Total limit provided by the carrier in all layers in which the carrier participates

Examples are as follows:

- For a policy providing Specific Insurance, if the required building coverage limits total $30 million, the carrier must at least meet the requirement of the A.M. Best Financial Size Category of IX, have an

A.M. Best rating of at least A-, and have one of the following additional ratings: an A- from Fitch, an A- from Standard & Poor's Rating Services, or an A3 from Moody's Investors Service.

- For a policy providing Blanket Insurance or a master program with more than one carrier participating with layered limits, if the total coverage for all layers is $200 million, but Carrier XYZ provides $5 million in coverage for each of three layers, then Carrier XYZ must at least meet the requirement of the A.M. Best Financial Size Category of VIII and have an A.M. Best rating of at least A-. Since Carrier XYZ's aggregate carrier exposure is $15 million ($5 million multiplied by three), a rating from Fitch, Standard & Poor's Rating Services or Moody's Investors Service is not required in this case. The aggregate carrier exposure is less than $25 million.

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31A.3(b): Alternative insurance carrier ratings (07/01/11)

Lower A.M. Best ratings and no minimum rating agency rating may be acceptable if there are more than two unrelated insurance carriers providing insurance on one or more Properties through:

- Blanket Insurance
- Master program
- Layered insurance program

To be eligible for the lower ratings shown in the table below, at least 80 percent of the total exposure in any layer must be insured by insurance carriers that fall into one of the acceptable A.M. Best Financial Size Categories and meet the applicable standard insurance carrier rating in Section 31A.3(a). No more than 20 percent of the total exposure may be insured by carriers meeting the following minimum requirements.

ALTERNATIVE INSURANCE CARRIER RATINGS			
Total Exposure	**Minimum A.M. Best Financial Strength Rating**	**AND**	**Minimum A.M. Best Financial Size Category**
Property insurance: • Required building coverage limit + Business Income/Rental Value limits; or • Blanket Insurance or master program limit and Liability Insurance: • Total required aggregate liability limits (general liability + excess/umbrella)	A-	AND	VII

For example, for an individual policy, a Blanket Insurance policy or a master program with more than one carrier participating with layered limits, if the total coverage for all layers is $300 million, a carrier with an A.M. Best rating of A- and a Financial Size Category of VII is eligible to provide coverage for an aggregate carrier exposure up to $60 million (20 percent of $300 million).

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31A.3(c): Windstorm carrier ratings (07/01/11)

For existing Mortgages, if the Borrower is unable to obtain insurance for windstorm and/or windstorm-related perils and/or "named storms" from a carrier that meets the requirements of Section 31A.3(a), the Servicer may approve the use of a policy from a State Windpool. See Section 31A.7 for additional information regarding windstorm insurance.

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31A.4(a): Determining adequate property damage coverage (07/01/11)

To ensure that the Borrower maintains adequate property damage insurance coverage, the Seller/Servicer must annually:

- Review the estimated Replacement Cost of the Property
- Certify on Form 1133, Seller/Servicer Certification of Insurance
  - For a Property with Specific Insurance, that the property damage coverage (not including flood insurance) for the insurable improvements on the Property is equal to 100 percent of the Replacement Cost
  - For a Property with Blanket Insurance, that
    - The coverage complies with the requirements in Section 31A.5,
    - The Replacement Cost estimate of the Property complies with this section, and
    - The per occurrence limit of the Blanket Insurance policy is greater than or equal to the largest Replacement Cost exposure covered by the Blanket Insurance policy limit
  - That all applicable insurance policies comply with the applicable requirements in this chapter

The Seller/Servicer must use up-to-date estimates of the Property's Replacement Cost from reliable sources. The most common resources to determine the estimated Replacement Cost of the Property include

1. **Insurance company** – the Replacement Cost estimate provided by the insurance company that has underwritten or will underwrite the property damage insurance. Using the insurance company's estimate, where provided, will help reduce any disagreements about coverage if a claim is filed
2. **Appraiser** – a qualified commercial real estate appraiser experienced in the market
3. **Contractor** – a reputable commercial contractor with experience constructing and/or reconstructing properties in the area similar to the Property

4. **Third-party vendor** – a third-party vendor that specializes in Replacement Cost calculations or publishes data used for this purpose

The Seller/Servicer may use other resources that the Seller/Servicer deems reliable to determine Replacement Cost.

The Seller/Servicer must be aware of changes in the market and construction costs in the area where the Property is located.

The Seller/Servicer must retain the most recent Replacement Cost estimate and justification in the Mortgage File.

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31A.4(b): Property damage coverage requirements (07/01/11)

1. **"Causes of Loss – Special Form" and "All risk" policy**

   At a minimum, the Seller/Servicer must ensure that the Property is protected against loss or damage from fire and other perils covered within the scope of a policy known as a "Causes of Loss – Special Form" or "All Risk" policy. Such insurance must

   - Be written with Replacement Cost coverage in an amount equal to 100 percent of the Replacement Cost of the insurable improvements without any deduction for depreciation, and
   - Either not contain a Coinsurance Clause or contain a Coinsurance Clause that is offset by an Agreed Amount provision. If an Agreed Amount provision is used, the Agreed Amount must equal the Replacement Cost.

   Additionally, Freddie Mac recommends that the policy contain a Joint Loss Agreement if Boiler and Machinery insurance is required and the insurance carrier providing Boiler and Machinery insurance is different from the carrier providing property damage insurance.

2. **Inflation Guard**

   Freddie Mac recommends that the policy contain an Inflation Guard endorsement, providing for an annual adjustment of the insurance amount based on that geographic area's inflation rate, or a similar option. (Inflation Guard may not always be available.)

3. **Property damage maximum deductible**

   The maximum deductible for property damage insurance for a policy providing Specific Insurance is:

Replacement Cost	Maximum Deductible
< $10 million	$50,000
≥ $10 million	$75,000

   For a policy providing Blanket Insurance, the maximum deductible per occurrence is:

Aggregate Replacement Cost of the covered	Maximum Per Occurrence Deductible

properties	
≤ $5 million	$50,000
> $5 million but ≤ $7.5 million	$75,000
> $7.5 million	One percent of the aggregate Replacement Cost of the covered properties, to a maximum deductible of $250,000

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31A.4(c): Expanded deductible (07/01/11)

For existing Mortgages, if the Borrower is unable to obtain a policy that complies with the maximum deductibles required by the applicable sections of this chapter, the Servicer may approve the following expanded maximum deductibles for all property damage policies providing Specific Insurance except National Flood Insurance Program (NFIP) and earthquake insurance if all of the conditions below have been met.

Expanded Deductibles

Replacement Cost	Maximum Deductible
< $10 million	$100,000
≥ $10 million	$150,000

- The Borrower is unable to obtain deductibles for the applicable property damage insurance in compliance with the other applicable sections of this chapter
- The Borrower or Borrower Principal demonstrates liquid assets at least four times the deductible amount
- The Mortgage is not on the Moderate, High or Critical Watchlist
- The Mortgage is not currently delinquent and has not been delinquent within the last 12 months
- The Property is in average or better condition according to the most recent inspection

The waiver of the maximum deductible is only valid for one policy term. At the end of that period, if the Borrower has been unable to obtain deductibles in compliance with the other applicable sections of this chapter, the Servicer may permit renewal of the waiver of the maximum deductibles in compliance with this sub-section.

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31A.5(a): Blanket Insurance requirements (07/01/11)

The provisions of this section apply to Blanket Insurance policies and master programs that have the characteristics of Blanket Insurance as defined in Section 31A.1(b). If the Blanket Insurance policy is written with unrelated Borrowers and/or properties, see Section 31A.5(c) for additional guidance.

Freddie Mac permits property damage limits provided by Blanket Insurance policies insuring multiple properties, including the Property and other properties that may or may not be encumbered by Mortgages purchased by Freddie Mac. The Seller/Servicer must, to its satisfaction, determine, support and document in the Mortgage File that the property damage insurance provided by the Blanket Insurance complies with the following requirements:

- The insurance documentation must confirm that the Property is identified in the policy as being insured and includes the complete street address of the Property (including all buildings).
- The insurance documentation must support a determination that the limits of the Blanket Insurance policy are appropriate for the insurable value of the Borrower's portfolio. See Section 31A.5(b) regarding documentation that may be acceptable.
- The Seller/Servicer must annually certify on Form 1133, Certification of Insurance Coverage, that
    - The per occurrence limit of the Blanket Insurance policy is no less than the largest Replacement Cost exposure covered by the limit of the Blanket Insurance policy.
    - The Blanket Insurance policy complies with the applicable requirements in this chapter.
- If other property damage insurance required by Freddie Mac (such as Business Income/Rental Value, Boiler and Machinery, Ordinance and Law and Windstorm) is not included in the limit of the Blanket Insurance policy, the Borrower must obtain one or more other policies providing Specific Insurance.
- If the limit of the Blanket Insurance policy provides coverage for Business Income/Rental Value insurance, Boiler and Machinery insurance and Ordinance or Law insurance, the per occurrence limit (s) for the applicable coverage must, at a minimum, provide the coverage required by a policy providing Specific Insurance for the property requiring the greatest coverage.
- If the Blanket Insurance policy provides flood insurance, the policy must, at a minimum:
    - Cover each building that is part of the Property (including each insurable improvement, whether habitable or not) that is fully or partially located in a Special Flood Hazard Area (SFHA)
    - Provide that the limit for flood insurance in the Blanket Insurance policy (for all properties, whether or not encumbered by a Freddie Mac Mortgage) must, at a minimum, equal the sum of the maximum flood insurance available from the National Flood Insurance Program (NFIP) for each building covered under the Blanket Insurance policy

      For example, the Blanket Insurance policy limit for flood insurance for the six buildings below is $1, 075,000:

Building	**Property**	**Encumbered by a Freddie Mac Mortgage**	**Maximum Flood Insurance Available from NFIP* for Each Building**
1	A	Yes	$250,000
2	A	Yes	$250,000
3	A	Yes	$250,000
4	B	No	$200,000
5	B	No	$100,000
6	B	No	$25,000
Minimum Limit for Flood Insurance under the Blanket Insurance Policy			$1,075,000

* Assumes $250,000 is the maximum coverage available from NFIP per building

The Seller/Servicer must also review Section 31A.5(b) below and require additional flood insurance as applicable based on the concentration of properties in SFHAs.

If the limit for flood insurance provided by the Blanket Insurance policy does not meet the above requirements, the Borrower must obtain flood insurance through a Specific Insurance policy (private or NFIP) for each insurable improvement, whether habitable or not, that is part of the Property and that is fully or partially located in an SFHA in compliance with Section 31A.8(e)(1) of the Guide.

The Seller/Servicer must retain in the Mortgage File all information (such as the Probable Maximum Loss analysis; statement of values, including the Replacement Cost and the location of all covered properties; and other data relevant to the coverage limits in the Blanket Insurance policy) obtained from the Borrower and/or other sources that the Seller/Servicer used to evaluate the adequacy of the property damage insurance provided by the Blanket Insurance policy.

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31A.5(b): Guidance for property damage insurance provided by Blanket Insurance written with related properties and Borrowers (07/01/11)

Freddie Mac expects the Seller/Servicer to make a good faith effort to determine, support and document that the coverage provided by a Blanket Insurance policy meets Freddie Mac's requirements and is adequate and appropriate for the insurable value of the Borrower's portfolio.

The Borrower may provide the following documentation in support of the insurable value of its portfolio:

- Probable Maximum Loss (PML) analysis that addresses the insurable value/risk of its portfolio
- Statement of values that identifies whether the portfolio has insurable value concentrated in geographical locations or concentrated with respect to any given insurable peril

A statement of values should include:

- The Replacement Cost of each covered property
- The complete street address for covered Properties encumbered by a Freddie Mac Mortgage
- The city, State and Zip Code for properties not encumbered by a Freddie Mac Mortgage
- A list of any covered properties that are contiguous to other covered properties
- The number of stories in each property
- Other data relevant to the coverage limits in the Blanket Insurance policy

The Seller/Servicer may wish to contact an independent insurance consultant to assist with analyzing and assessing the adequacy of the Blanket Insurance.

If the Borrower and/or their insurance agent or broker are not willing to provide a PML and/or a complete statement of values, the Seller/Servicer may be able to obtain an abbreviated statement of values that indicates:

- The Replacement Cost of the largest Replacement Cost exposure covered by the limit of the Blanket Insurance policy
- The total insurable value for the portfolio covered by the Blanket Insurance policy including a summary of total insurable value for:
  - Contiguous properties
  - Properties within 50 miles of the east and/or Gulf coast
  - Properties located in brush fire areas
  - Properties concentrated in areas where the total insurable value equals or exceeds 25 percent of the Borrower's portfolio
- If any property is over 3 stories above grade

If the Borrower is unwilling to provide any information to the Seller/Servicer, the Seller/Servicer's internal insurance department or the Seller/Servicer's external insurance consultant may contact the Borrower and/or their insurance agent or broker. The Seller/Servicer's representative can discuss Freddie Mac's requirements and guidance for Blanket Insurance with the Borrower, the insurance agent or broker, who can respond and indicate compliance and explain any differences that may arise.

In assessing the adequacy of the coverage, the Seller/Servicer should consider all of the following guidelines to help determine if the property damage insurance coverage provided by the Blanket Insurance policy is adequate for the subject Property, other Properties encumbered by a Freddie Mac Mortgage and other properties covered by the Blanket Insurance policy. Considering only some of the guidelines will not necessarily provide the Seller/Servicer with enough information to properly judge the adequacy of the coverage.

The guidelines below apply to all required property damage coverage that is being provided by a Blanket Insurance policy, including catastrophic perils such as windstorm, windstorm-related perils, “named storms”, flood and earthquake.

- Generally, the per occurrence limit of the Blanket Insurance policy should, at a minimum, cover 40 percent of the Replacement Cost of all properties covered by the policy. Depending on the geographical distribution of the properties, the physical perils in the area, the number of properties covered and/or other risk factors observed by the Seller/Servicer, the per occurrence limit may approach 90 percent. For example, if the policy covers properties with a Replacement Cost of $100 million, generally the minimum coverage should be no lower than $40 million while the per occurrence limit may approach $90 million if there is a high concentration of properties in an area subject to a catastrophic peril.
- The per occurrence limit of the Blanket Insurance policy must be no less than the largest Replacement Cost exposure covered by the limit of the Blanket Insurance policy. Additional coverage greater than the largest property may also be appropriate.
- Contiguous properties, or properties in close proximity to each other, should be covered for at least 90 percent of the total Replacement Cost. For example, two $50 million properties next to each other should, at a minimum, be covered with a per occurrence limit of $90 million. Properties that are 10 or 20 miles (or more) apart may also be considered to be in close proximity to each other if they are located in an area that is prone to hurricanes or another peril that could impact multiple properties that are miles apart. The definition of “close proximity” varies based on the peril covered. Properties that are contiguous, including those that are across the street from each other, must be considered to be in close proximity for most perils.
- If the properties are widely dispersed throughout the country (less than 25 percent concentration in

any one Metropolitan Statistical Area (MSA)) and a large percentage of the properties are not subject to high-risk factors such as windstorm, windstorm-related perils, “named storms”, flood damage or other perils, a Blanket Insurance policy covering 40 to 50 percent of the Replacement Cost of all assets may be acceptable.

- If the properties are concentrated in one MSA, for example, if 25 percent or more of the assets are in Kansas City, the coverage should increase to account for the concentration of assets in that MSA plus any risks specific to that MSA (such as tornados). If assets are concentrated in more than one MSA (for example, if 30 percent of the assets are in Kansas City and 35 percent are in Topeka), coverage should again compensate for those risks (such as tornados) in addition to concentration risk.
- The coverage provided by the Blanket Insurance policy should increase:
  - If the assets are concentrated in a compact MSA, such as New Orleans
  - Based on the physical perils in a specific geographic region, for example:
    - Properties on the Atlantic and Gulf coasts are at a high risk of damage from windstorm and/or windstorm perils and/or “named storms”.
    - Properties in New Orleans are at a high risk of flood damage, windstorm and/or windstorm-related perils and/or “named storms”.
    - Properties in southern California are at a high risk from brush fires.
  - Based on the number of covered assets (The greater the number of properties covered by the policy, the lower the percentage of coverage in relation to the Replacement Cost of all assets, as the risk of loss is more widely dispersed. For example, a Blanket Insurance policy covering 100 properties will typically have a lower percentage of coverage than a policy covering 50 properties.)
- The coverage provided by the Blanket Insurance policy should increase if the Seller/Servicer or the Borrower believes additional coverage is appropriate for the circumstances.

In addition, the Borrower may also obtain coverage for the following types of insurance under a limit provided by the Blanket Insurance policy:

- Business Income/Rental Value Insurance
- Boiler and Machinery insurance
- Ordinance and Law insurance

The coverage under these insurance policies must meet the requirements of the other applicable sections of this chapter.

However, if the coverage is provided with a Blanket Insurance policy, the Borrower should, at a minimum, have Business Income/Rental Value Insurance coverage for no less than the per occurrence percentage determined for the property damage insurance above. For example, if the Seller/Servicer determines that a per occurrence limit for property damage insurance of 50 percent of the Replacement Cost of all properties covered is appropriate, then the limit for Business Income/Rental Value Insurance should be no less than 50 percent of the anticipated gross income for all properties covered.

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31A.5(c): Additional guidance for property damage insurance provided by a Blanket Insurance policy written with unrelated Borrowers or properties (07/01/11)

Freddie Mac recognizes that some Blanket Insurance or master program property damage insurance may be purchased by unrelated Borrowers, Borrower Principals, or entities covering unrelated properties. This includes Blanket Insurance policies that are written for properties and Borrowers, Borrower Principals or entities that are only related through the relationship with the property management company. Freddie Mac perceives additional risk in the Blanket Insurance policies for these properties and encourages the Seller/Servicer to carefully analyze these policies to determine if the Property and other Properties encumbered by a Freddie Mac Mortgage are adequately insured.

Freddie Mac recommends that the Seller/Servicer obtain the following information to help in assessing the adequacy of the property damage insurance provided by this type of Blanket Insurance policy for unrelated entities:

- Name and address of the insurance company or companies
- Carrier ratings of the insurance company or companies
- The per occurrence limit and any sublimits (plus coverage by layer, if applicable)
- Address and Replacement Cost of the subject Property
- Address and Replacement Cost of other Properties controlled by the same Borrower or Borrower Principal that are insured under this policy and are also encumbered by a Freddie Mac Mortgage
- City, State, Zip Code and Replacement Cost of all other properties that are covered under the policy
- Number of stories in each property
- Per occurrence limit/cap for the policy
- Deductibles
- Number of Borrowers, Borrower Principals and entities insured

The Seller/Servicer should compare the coverage provided in the policy to the limits/caps in the policy based on Section 31A.5(b).

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31A.5(d): Deductible for Blanket Insurance policy or master program (07/01/11)

The maximum per occurrence deductible for a Blanket Insurance policy or master program providing property damage coverage is:

Aggregate Replacement Cost of the covered properties	Maximum per Occurrence Deductible
≤ $5 million	$50,000
> $5 million but ≤ $7.5 million	$75,000
> $7.5 million	One percent of the aggregate Replacement Cost of the covered properties, to a maximum deductible of

	$250,000

If the limit of the Blanket Insurance policy or master program provides insurance for Business Income/Rental Value Insurance or Boiler and Machinery Insurance, the deductible must comply with the applicable sections of the Guide:

- 31A.6, Business Income/Rental Value Insurance
- 31A.10, Boiler and Machinery Insurance

Agency Guides/Freddie Mac Multifamily/Multifamily Seller/Servicer Guide/Chs. 29-35: Closing, Delivery and File Retention/Chapter 31A: Insurance Requirements (on or after 07/01/11)/31A.6: Business Income/Rental Value Insurance (07/01/11)

31A.6: Business Income/Rental Value Insurance (07/01/11)

The term Business Income/Rental Value Insurance, when used in this chapter, refers to coverage that provides the Borrower rental income and/or other applicable business income in the event of a full or partial loss. This insurance also covers normal operating expenses such as utilities that must continue during the suspension of business operations.

The extended period of indemnity provides rental income coverage after the Property has been repaired or rebuilt, but before the income has returned to its pre-loss level. The Borrower must obtain Business Income/Rental Value Insurance for loss or damage from perils within the scope of the "Causes of Loss – Special Form" or "All Risk" policy, including any other cause for which Freddie Mac requires or may require property damage insurance.

If the Business Income/Rental Value Insurance is not included in the primary or other property damage policy (for example, it may not be included in the coverage provided by a flood, earthquake or State Windpool insurance policy), the Borrower must obtain separate Business Income/Rental Value Insurance for such covered losses.

The Borrower must obtain Business Income/Rental Value Insurance as follows:

UPB (unpaid principal balance) and number of stories	Minimum number of months of anticipated gross income
Mortgages with improvements of 5 stories or more above grade, regardless of UPB	18
Mortgages with a UPB of $50 million or greater	18
All other Mortgages	12

The policy must include a minimum extended period of indemnity as follows:

UPB and number of stories	Minimum extended period of indemnity
Mortgages with improvements of 5 stories or more above grade, regardless of the UPB	90 days
All other Mortgages with a UPB of $25 million or greater	90 days
All other Mortgages	None required

The waiting period (also known as the deductible for this coverage) may not exceed 72 hours.

Agency Guides/Freddie Mac Multifamily/Multifamily Seller/Servicer Guide/Chs. 29-35: Closing, Delivery and File Retention/Chapter 31A: Insurance Requirements (on or after 07/01/11)/31A.7: Windstorm insurance/31A.7(a): General information on windstorm insurance (07/01/11)

31A.7(a): General information on windstorm insurance (07/01/11)

If windstorm and/or windstorm related perils and/or “named storms” (referred to as “Windstorm Coverage”) are excluded from the primary property damage insurance policy, the Borrower must obtain separate Windstorm Coverage, either through an endorsement or a separate policy.

The Windstorm Coverage must

- Be written with Replacement Cost coverage in an amount equal to 100 percent of the Replacement Cost of the insurable improvements without any deduction for depreciation, and
- Either not contain a Coinsurance Clause or contain a Coinsurance Clause that is offset or suspended by an Agreed Amount provision. If an Agreed Amount provision is used, the Agreed Amount must equal the Replacement Cost.

If separate Windstorm Coverage is required, the Borrower must ensure that Business Income/Rental Value Insurance is also in force for a covered loss.

For Windstorm Coverage, the maximum deductible is

- For a policy providing Specific Insurance:
    - For Properties in Florida and for all other East Coast and Gulf Coast Properties located within 50 miles of the coast, the maximum deductible is 5 percent of the Replacement Cost of the Property.
    - For all other Properties:

Replacement Cost of the Property	Maximum deductible
< $10 million	$50,000
≥ $10 million	$75,000

- For a policy providing Blanket Insurance:
    - For Properties in Florida and for all other East Coast and Gulf Coast Properties located within 50 miles of the coast, the maximum deductible per occurrence is 5 percent of the Replacement Cost of the covered properties.
    - For all other Properties, the maximum deductible per occurrence is:

Aggregate Replacement Cost of the covered properties	Maximum per occurrence deductible
≤ $5 million	$50,000
> $5 million but ≤ $7.5 million	$75,000
> $7.5 million	One percent of the aggregate Replacement Cost of the covered properties, to a maximum deductible of $250,000

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Delivery and File Retention/Chapter 31A: Insurance Requirements (on or after 07/01/11)/31A.7: Windstorm insurance/31A.7(b): Windstorm insurance through a State Windpool (07/01/11)

31A.7(b): Windstorm insurance through a State Windpool (07/01/11)

For existing Mortgages, if the Borrower is only able to obtain Windstorm Coverage from a State Windpool, the policy must meet the requirements in 1, 2, or 3 below, as applicable:

1. If the policy issued by the State Windpool does not contain a Coinsurance Clause, the policy must be written with Replacement Cost coverage in an amount equal to 100 percent of the Replacement Cost of the insurable improvements without any deduction for depreciation.

2. If the policy issued by the State Windpool contains a Coinsurance Clause that is offset or suspended by an Agreed Amount provision:

   - The policy must be written with Replacement Cost coverage in an amount equal to 100 percent of the Replacement Cost of the insurable improvements without any deduction for depreciation, and

   - The Agreed Amount must equal the Replacement Cost.

3. If the policy issued by the State Windpool contains a Coinsurance Clause that is not offset or suspended by an Agreed Amount provision, then all of following are required:

   - The policy must be written with Replacement Cost coverage in an amount equal to 100 percent of the Replacement Cost of the insurable improvements without any deduction for depreciation.

   - The Replacement Cost estimate must meet the requirements of the Guide.

   - The Servicer must document in the Mortgage File that there is a Replacement Cost estimate dated within 12 months of the request for Coinsurance.

   - The policy must contain a Coinsurance Clause less than or equal to 90 percent (such as 70 percent or 80 percent)

   In addition, the guarantor must sign an additional guaranty of any losses incurred by Freddie Mac associated with the Borrower's failure to maintain the required Windstorm Coverage.

   If at expiration of the policy the Borrower is unable to obtain a policy that complies with Section 31A.7 (a), and the Borrower is only able to obtain a policy from a State Windpool, the Borrower must obtain a new policy in compliance with this section.

   If the Business Income/Rental Value Insurance required in Section 31A.6 is not included in the State Windpool insurance policy, the Borrower must obtain separate Business Income/Rental Value Insurance for Windstorm Coverage for a covered loss.

Agency Guides/Freddie Mac Multifamily/Multifamily Seller/Servicer Guide/Chs. 29-35: Closing, Delivery and File Retention/Chapter 31A: Insurance Requirements (on or after 07/01/11)/31A.8: Borrower's flood insurance requirements/31A.8(a): Special Flood Hazard Area (SFHA) (05/07/07)

31A.8(a): Special Flood Hazard Area (SFHA) (05/07/07)

As of the Freddie Mac Funding Date and throughout the term of the Mortgage, Freddie Mac requires flood insurance on a Property located in a Special Flood Hazard Area (SFHA) designated as Zones A and V. Zones A and V also include the following Zones: AE, A1 – 30, AH, AO, AR, A99, VE, and V1 – 30, as identified in the Federal Emergency Management Agency's (FEMA) National Flood Insurance Program (NFIP) maps.

FEMA determines SFHAs, and the determinations may change from time to time. The Seller/Servicer must be aware of any changes in flood zone determinations and require flood insurance if flood insurance requirements apply to a Property in that zone.

Agency Guides/Freddie Mac Multifamily/Multifamily Seller/Servicer Guide/Chs. 29-35: Closing, Delivery and File Retention/Chapter 31A: Insurance Requirements (on or after 07/01/11)/31A.8: Borrower's flood insurance requirements/31A.8(b): Flood zone determination (05/07/07)

31A.8(b): Flood zone determination (05/07/07)

The Seller/Servicer must make or obtain a flood zone determination (FZD) for each Mortgage to be sold to Freddie Mac. The FZD determines whether any of the buildings (including each insurable improvement, whether habitable or not) on the Property are located in an SFHA.

The Seller/Servicer, or the party from whom the FZD was obtained, must document the FZD using the Standard Flood Hazard Determination form issued by FEMA. If a party other than the Seller/Servicer makes a flood zone determination, that party must have guaranteed to the Seller/Servicer the accuracy of the determination in accordance with Federal law.

Agency Guides/Freddie Mac Multifamily/Multifamily Seller/Servicer Guide/Chs. 29-35: Closing, Delivery and File Retention/Chapter 31A: Insurance Requirements (on or after 07/01/11)/31A.8: Borrower's flood insurance requirements/31A.8(c): Mortgages ineligible for purchase (07/01/11)

31A.8(c): Mortgages ineligible for purchase (07/01/11)

See Section 8.14.

Agency Guides/Freddie Mac Multifamily/Multifamily Seller/Servicer Guide/Chs. 29-35: Closing, Delivery and File Retention/Chapter 31A: Insurance Requirements (on or after 07/01/11)/31A.8: Borrower's flood insurance requirements/31A.8(d): Mortgages eligible for purchase (07/01/11)

31A.8(d): Mortgages eligible for purchase (07/01/11)

1. **Flood insurance required**

   If any building (including each insurable improvement, whether habitable or not) that is part of the Property is located in an area that has been identified by FEMA as a Special Flood Hazard Area (SFHA) and the community where the Property is located participates in the NFIP, the Seller/Servicer must ensure that flood insurance is in force for each such building as of the Freddie Mac Funding Date and that the Borrower maintains the insurance for the term of the Mortgage.

2. **Flood insurance not required**

   Freddie Mac does not require flood insurance if there are no buildings on the Property located in an SFHA.

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31A.8(e): Amount of flood insurance required (07/01/11)

1. Required flood coverage

For each building that is part of the Property (including each insurable improvement, whether habitable or not) that is fully or partially located in an SFHA, flood insurance coverage must, at a minimum, equal the higher of:

- The maximum flood insurance available under NFIP for each building being insured, or
- An amount no less than the sum of the following for each building being insured:
  - The Replacement Cost of all areas below grade, plus
  - The Replacement Cost of the bottom two stories above grade, plus
  - Any additional coverage dictated by the nature of the Property as determined by Freddie Mac

The Borrower may obtain the required flood insurance coverage from NFIP and/or a private flood insurance carrier. If the Borrower obtains coverage from NFIP, the coverage is per building. The balance of the required coverage must be provided through private flood insurance. If the Borrower uses private flood insurance, the terms and conditions of the flood insurance coverage must be at least equivalent to the terms and conditions of coverage provided under the standard policy of NFIP insurance for the type of improvement insured. If there is a lapse in the availability of NFIP flood insurance policies due to the temporary expiration of NFIP's authority, the Borrower must obtain or renew, as applicable, the required flood insurance from a private flood insurance carrier.

If flood insurance is carried under a Blanket Insurance policy, see Section 31A.5 for coverage requirements.

If the Business Income/Rental Value Insurance required in Section 31A.6 is not included in the primary or flood insurance policy, the Borrower must obtain separate Business Income/Rental Value Insurance for a flood loss.

2. Maximum deductible

(a) NFIP

All NFIP policies must comply with the NFIP deductible for the type of improvement insured.

(b) Private flood insurance

The maximum per occurrence deductible for private flood insurance is:

- For a policy providing Specific Insurance:

Replacement Cost of the Property	Maximum deductible
< $10 million	$50,000
≥ $10 million	$75,000

- For a policy providing Blanket Insurance:

Aggregate Replacement Cost of the	Maximum per occurrence deductible

covered properties	
≤ $5 million	$50,000
> $5 million but ≤ $7.5 million	$75,000
> $7.5 million	One percent of the aggregate Replacement Cost of the covered properties to a maximum deductible of $250,000

Agency Guides/Freddie Mac Multifamily/Multifamily Seller/Servicer Guide/Chs. 29-35: Closing, Delivery and File Retention/Chapter 31A: Insurance Requirements (on or after 07/01/11)/31A.8: Borrower's flood insurance requirements/31A.8(f): Seller/Servicer monitoring responsibilities (05/07/07)

31A.8(f): Seller/Servicer monitoring responsibilities (05/07/07)

The Seller/Servicer must have a process in place that allows it to

- Identify any FEMA NFIP map changes, and
- Determine whether buildings that are part of any Property in a community affected by a map change are now located in, or are no longer located in, an SFHA as a result of the map change

Agency Guides/Freddie Mac Multifamily/Multifamily Seller/Servicer Guide/Chs. 29-35: Closing, Delivery and File Retention/Chapter 31A: Insurance Requirements (on or after 07/01/11)/31A.8: Borrower's flood insurance requirements/31A.8(g): Evaluating the need for flood insurance coverage (03/31/11)

31A.8(g): Evaluating the need for flood insurance coverage (03/31/11)

1. **No change in the flood map, the Property remains in an SFHA**

   If all or any of the buildings that are part of the Property were previously in an SFHA and remain in an SFHA, the Servicer must continue to require the Borrower to obtain the required amount of flood insurance.

2. **Change in the flood map, the Property is now in an SFHA**

   If all or any of the buildings that were not previously in an SFHA are now in an SFHA, the Servicer must require the Borrower to obtain the required amount of flood insurance no later than 120 days after the effective date of the FEMA NFIP map change. The Borrower must obtain the primary flood insurance from NFIP. The Borrower must obtain any additional coverage required from a private insurance company meeting Freddie Mac's requirements.

   If adequate flood insurance is not available, the Servicer must contact Freddie Mac *Multifamily Asset Management, Low Risk Loans*, and the Servicer and the Borrower must continue trying to obtain the required coverage.

3. **Documentation required for coverage discontinuation**

   The Servicer may authorize the Borrower to discontinue flood insurance coverage for a Property that is no longer in an SFHA upon the Servicer's receipt of any one of the following:

   - The Borrower has provided the Servicer with a Letter of Map Amendment (LOMA) from FEMA excluding the insurable improvements or the entire Property from the SFHA, or

- The Borrower has provided the Servicer with a Letter of Map Revision (LOMR) from FEMA removing the community's SFHA designation, or

- Following a joint request to FEMA, as provided under federal law, the Borrower and the Servicer have obtained a Letter of Determination Review (LODR) concluding that the insurable improvements are not in the SFHA

The Borrower must maintain flood insurance on the insurable improvements until FEMA issues a LOMA, LOMR or LODR. Upon issuance of a LOMA, LOMR or LODR, the Borrower may request from FEMA a refund of paid flood insurance premiums through the insurance agent servicing the flood insurance policy. A copy of the LOMA, LOMR or LODR, as applicable, must be maintained in the Mortgage File.

Within 10 days of authorizing the Borrower to discontinue flood insurance coverage, the Servicer must give written notice to Freddie Mac *Multifamily Asset Management, Low Risk Loans*, along with a copy of the LODR, LOMA or LOMR and any other applicable documentation.

Agency Guides/Freddie Mac Multifamily/Multifamily Seller/Servicer Guide/Chs. 29-35: Closing, Delivery and File Retention/Chapter 31A: Insurance Requirements (on or after 07/01/11)/31A.9: Earthquake insurance/31A.9(a): Earthquake terms used in this chapter (07/01/11)

31A.9(a): Earthquake terms used in this chapter (07/01/11)

These terms, when used in this chapter, have the following meanings:

- **Site Specific Seismic Report (SSSR)**

  The Site Specific Seismic Report (SSSR) is a property-level analysis that uses modeling techniques to assess the risk to a Property from earthquakes or other seismic events. It takes into consideration proximity to known tectonic faults, construction type and quality, building configuration, soil condition, geological and other factors. The engineer or firm completing the SSSR must send a resume or statement of qualification with the completed SSSR.

- **Probable Maximum Loss (PML)**

  The PML represents the likely (or probable) amount of damage to the Property's improvements that will be caused by a specific peril (earthquake, fire, etc.). The PML is stated as a percentage of the current Replacement Cost of those improvements. Freddie Mac has determined that for earthquake, the PML is based on the probability that an earthquake has a 10 percent chance of occurring within the next 50 years out of an overall 475-year period.

Agency Guides/Freddie Mac Multifamily/Multifamily Seller/Servicer Guide/Chs. 29-35: Closing, Delivery and File Retention/Chapter 31A: Insurance Requirements (on or after 07/01/11)/31A.9: Earthquake insurance/31A.9(b): Earthquake insurance requirements (07/01/11)

31A.9(b): Earthquake insurance requirements (07/01/11)

Freddie Mac requires an SSSR with a PML at the Borrower's expense for a Property located in Seismic Risk Zone 3 or 4. The Seller/Servicer may consult a current edition of the Uniform Building Code for a map of Seismic Risk Zones 0 through 4.

If the Property is located in a Seismic Risk Zone 3 or 4 and the PML is greater than 20 percent but less than or equal to 40 percent, Freddie Mac requires earthquake insurance. See Section 8.14 regarding Mortgages not eligible for purchase based on a PML greater than 40 percent.

For a Property for which Freddie Mac requires earthquake insurance, the coverage must be the greater of $1 million or 150 percent of the difference between the projected loss for the Property using the actual PML and the projected loss with a 20 percent PML. A reserve account may be required for certain deductibles, based on the Borrower equity and the maximum deductible.

For example:

Replacement Cost for the Property = $30 million
Actual PML = 30 percent
Minimum required earthquake insurance = $4.5 million

Replacement Cost X Actual PML	$30 million X 30 percent	=	$9 million
Replacement Cost X 20 percent PML	$30 million X 20 percent	=	<u>$6 million</u>
			$3 million
Difference X 150 percent	$ 3 million X 150 percent	=	$4.5 million

Maximum Deductibles

Borrower Equity	Maximum Deductible (a reserve account may be required for certain deductibles)	Reserve Account
≤ 30 percent	5 percent of coverage	Not required
≤ 30 percent	10 percent of coverage	Required for 5 percent of the coverage amount
≤ 30 percent	15 percent of coverage	Required for 10 percent of the coverage amount
> 30 percent	15 percent of coverage	Not required

Sections 31A.6 and 31A.12 of the Guide require the Borrower to obtain separate Business Income/Rental Value Insurance and Ordinance and Law coverage if the earthquake insurance does not provide that coverage for earthquake damage.

If subsequent to Freddie Mac’s purchase of the Mortgage, but prior to Securitization, the Seismic Risk Zone maps change and a Property that was not previously in Seismic Risk Zone 3 or 4 is now in Seismic Risk Zone 3 or 4, the Seller/Servicer must provide a SSSR, including a PML and the engineer or firm’s recommendations, to Freddie Mac *Multifamily Asset Management, Low Risk Loans* within 60 days of the map change. The Servicer must retain all such evidence in the Mortgage File. In addition, the engineer or firm completing the SSSR must send a resume or statement of qualification with the completed SSSR. Freddie Mac *Multifamily Asset Management, Low Risk Loans* will determine if and/or how much earthquake insurance is required.

If subsequent to Freddie Mac’s purchase of the Mortgage, but prior to Securitization, the Seismic Risk Zone maps change and a Property that was previously in Seismic Risk Zone 3 or 4 is no longer in Seismic Risk Zone 3 or 4, but earthquake coverage was required based on the results of the previous SSSR and PML, the Seller/Servicer may request to discontinue the earthquake coverage. The Seller/Servicer must document the change in the Property’s status with respect to the Seismic Risk Zone maps and submit the evidence to Freddie Mac *Multifamily Asset Management, Low Risk Loans* in order to seek permission from Freddie Mac to discontinue or reduce earthquake insurance. The Servicer must retain all such evidence in the Mortgage File.

Agency Guides/Freddie Mac Multifamily/Multifamily Seller/Servicer Guide/Chs. 29-35: Closing, Delivery and File Retention/Chapter 31A: Insurance Requirements (on or after 07/01/11)/31A.10:

Boiler and Machinery insurance (07/01/11)

31A.10: Boiler and Machinery insurance (07/01/11)

Boiler and Machinery insurance provides coverage for damage to the

- Central heating, ventilation and cooling system (HVAC)
- Other portions of the Property, if the damage is the result of an explosion of steam boilers, pressure vessels and/or other steam equipment

Freddie Mac requires comprehensive Boiler and Machinery insurance for a Property with a central HVAC system where steam boilers and/or other pressurized systems are in operation and are regulated by the State where the Property is located. The insurance must cover loss or damage from explosion of steam boilers, pressure vessels and/or other steam equipment now or installed at a later date.

The required coverage for Boiler and Machinery insurance must at least equal the Replacement Cost of the building housing the central HVAC system, including the Replacement Cost of the central HVAC system. If the Boiler and Machinery insurance is provided by a different insurance carrier than the primary insurance carrier providing the property damage policy, Freddie Mac recommends that both policies include a Joint Loss Agreement.

The maximum per occurrence deductible for Boiler and Machinery insurance is

- For a policy providing Specific Insurance:

Replacement Cost of the Property	Maximum per occurrence deductible
< $10 million	$50,000
≥ $10 million	$75,000

- For a policy providing Blanket Insurance:

Aggregate Replacement Cost of the covered properties	Maximum per occurrence deductible
≤ $5 million	$50,000
> $5 million but ≤ $7.5 million	$75,000
> $7.5 million	One percent of the aggregate Replacement Cost of the covered properties to a maximum deductible of $250,000

Agency Guides/Freddie Mac Multifamily/Multifamily Seller/Servicer Guide/Chs. 29-35: Closing, Delivery and File Retention/Chapter 31A: Insurance Requirements (on or after 07/01/11)/31A.11: Builder's Risk insurance (07/01/11)

31A.11: Builder's Risk insurance (07/01/11)

The term Builder’s Risk insurance, when used in this chapter, means a policy that insures against property damage to buildings under construction, rehabilitation, addition, significant alteration or repair. The Borrower must insure any additions, alterations, rehabilitations, new construction or repairs to the Property during any construction. The Borrower may meet this requirement with either an extension of the standard property damage insurance policy or a separate Builder's Risk policy.

The coverage must be for at least 100 percent of the sum of the contract or contracts and all materials to complete the work. The policy must cover fire and other perils covered within the scope of a policy known as a “Causes of Loss – Special Form” or “All Risk” policy.

Once construction is complete, the Borrower may discontinue the Builder’s Risk coverage.

The maximum per occurrence deductible for Builder’s Risk insurance is

- For a policy providing Specific Insurance:

Replacement Cost of the Property	Maximum per occurrence deductible
< $10 million	$50,000
≥ $10 million	$75,000

- For a policy providing Blanket Insurance:

Aggregate Replacement Cost of the covered properties	Maximum per occurrence deductible
≤ $5 million	$50,000
> $5 million but ≤ $7.5 million	$75,000
> $7.5 million	One percent of the aggregate Replacement Cost of the covered properties to a maximum deductible of $250,000

Agency Guides/Freddie Mac Multifamily/Multifamily Seller/Servicer Guide/Chs. 29-35: Closing, Delivery and File Retention/Chapter 31A: Insurance Requirements (on or after 07/01/11)/31A.12: Ordinance and Law coverage (07/01/11)

31A.12: Ordinance and Law coverage (07/01/11)

Ordinance and Law coverage insures a legal nonconforming Property against certain losses if that Property is destroyed or partially destroyed and the jurisdiction where the Property is located will not permit the Property to be rebuilt or rebuilt to the pre-loss configuration. Local zoning or ordinance determines the threshold percentage of destruction. For example, in some jurisdictions, if more than 50 percent of the Property is destroyed, the Property may not be rebuilt to the pre-loss configuration.

For each Property that is classified as nonconforming under current building, zoning, or land-use laws or ordinances (“zoning laws”), during the term of the Mortgage, the Seller/Servicer must ensure that the insurance policies covering the Property include Ordinance and Law insurance. Freddie Mac may reduce or eliminate this requirement if the Seller/Servicer provides evidence satisfactory to Freddie Mac that, in the event of a loss, the municipality or other governing authority will permit the Property to be rebuilt to the specifications of the Property that existed at the time of the loss (see Section 8.5).

Ordinance and Law coverage must include coverage for all of the following:

a. **Loss to the undamaged portion of the Property**: Coverage in an amount equal to the Replacement Cost of the Property; provided, however, if the damage threshold percentage of the zoning laws is known, the minimum for coverage A may be determined as follows:

   Minimum required for coverage A = (Replacement Cost – (Replacement Cost X damage threshold percentage))

   For example:

- If the Replacement Cost of the Property is $20 million and the damage threshold percentage is 60 percent, the coverage A limit must be at least $8 million ($20 million – ($20 million X 60 percent) = $8 million).

- If the damage threshold percentage is unknown, the minimum coverage must equal the Replacement Cost of the Property, which is $20 million in this example.

b. **Demolition cost**: The cost to demolish and clear the site of undamaged parts of the Property if such demolition is required by enforcement of any zoning laws (Such coverage must be in an amount equal to no less than 10 percent of the full Replacement Cost of the Property.)

c. **Construction cost**: Increased cost of construction to allow the Borrower to rebuild the Property to meet all applicable building codes. (Such coverage must be in an amount equal to no less than 10 percent of the full Replacement Cost of the Property.)

In addition, Business Income/Rental Value Insurance must be endorsed to cover income/rent loss arising out of any increased time necessary to repair or rebuild the Property due to the enforcement of any zoning laws.

If on the Freddie Mac Funding Date the Property is in compliance with the zoning laws, but subsequent to the Freddie Mac Funding Date, the zoning laws are changed making the Property nonconforming, the Servicer must notify Freddie Mac *Multifamily Asset Management, Low Risk Loans* in writing and provide the information required in Section 8.5. Freddie Mac will determine if Ordinance and Law insurance is required and notify the Seller/Servicer of its determination. If Freddie Mac requires Ordinance and Law insurance, the Borrower must obtain the coverage within 60 days of Freddie Mac's determination. The Servicer must send Freddie Mac *Multifamily Asset Management, Low Risk Loans* evidence that an Ordinance and Law policy is in force.

If Freddie Mac requires Ordinance and Law insurance on a Property because it is non-conforming, and the zoning laws change reclassifying the Property as conforming, the Servicer may discontinue the coverage, provided that the Servicer documents the changes in the zoning laws and obtains a letter or other documentation from the applicable jurisdiction that the Property is now legal conforming use. The Servicer must retain all such evidence in the Mortgage File.

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31A.13: Terrorism insurance (07/01/11)

Terrorism insurance is required for each Property and must meet all of the requirements set forth in Chapter 31A of the Guide for:

- Property damage insurance for the Replacement Cost in accordance with Section 31A.4

- Business Income/Rental Value Insurance in accordance with Section 31A.6, and

- Liability insurance in accordance with Section 31A.16

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31A.14: Localized perils insurance (07/01/11)

For a Property located in an area prone to localized perils, such as sinkhole, mine subsidence, volcanic eruption, and avalanche, the Borrower must have one or more insurance policies covering these perils. Sinkholes are particularly common in Florida. Mine subsidence may occur in any location where there is, or has been, subterranean mining, but is particularly common in Pennsylvania, Ohio, Illinois and Colorado.

If this insurance is not available and the Property is at risk for one or more of these perils, the Seller/Servicer must inform the *Applicable Freddie Mac Multifamily Regional Office* or Freddie Mac *Multifamily Asset Management, Low Risk Loans*, as applicable.

Coverage must be for the Replacement Cost of the buildings affected by the localized peril.

The maximum deductible for localized perils insurance is:

- For a policy providing Specific Insurance:

Replacement Cost of the Property	Maximum Deductible
< $10 million	$50,000
≥ $10 million	$75,000

- For a policy providing Blanket Insurance:

Aggregate Replacement Cost of the covered properties	Maximum per occurrence deductible
≤ $5 million	$50,000
> $5 million but ≤ $7.5 million	$75,000
> $7.5 million	One percent of the aggregate Replacement Cost of the covered properties to a maximum deductible of $250,000

Agency Guides/Freddie Mac Multifamily/Multifamily Seller/Servicer Guide/Chs. 29-35: Closing, Delivery and File Retention/Chapter 31A: Insurance Requirements (on or after 07/01/11)/31A.15: Sewer and drain insurance (07/01/11)

31A.15: Sewer and drain insurance (07/01/11)

If the Seller/Servicer or the Borrower is aware that the Property is prone to periodic sewer or drain back-ups caused by ground water, public or private water systems, or public sewers external to the Property, the Seller/Servicer must require the Borrower to obtain sewer and drain backup insurance.

Coverage and the deductible must be consistent with the coverage obtained by other lenders in the area.

Agency Guides/Freddie Mac Multifamily/Multifamily Seller/Servicer Guide/Chs. 29-35: Closing, Delivery and File Retention/Chapter 31A: Insurance Requirements (on or after 07/01/11)/31A.16: Borrower’s general liability insurance/31A.16(a): General, umbrella and excess liability insurance requirements (07/01/11)

31A.16(a): General, umbrella and excess liability insurance requirements (07/01/11)

The Borrower must maintain standard Commercial General Liability (CGL) insurance on an “occurrence-based” policy form that insures against legal liability resulting from bodily injury, property damage, personal injury and advertising injury, and includes contractual liability coverage.

The CGL insurance must pay for the cost of defending any covered claim arising out of or in connection with the ownership, possession, use, leasing, operation, maintenance or condition of the Property. The CGL policy must pay defense costs in addition to the limits required below.

The policy must be written on an “occurrence-based” policy form, unless the Property has assisted living, Alzheimer’s care and/or skilled nursing units. If the Property has assisted living, Alzheimer’s care and/or skilled nursing units, the general liability insurance (CGL, umbrella and/or excess liability insurance) may be written on a “claims made” policy form. The Seller/Servicer must notify Freddie Mac if the Borrower plans to switch the coverage from a “claims made” policy form to an “occurrence-based” policy form. Freddie Mac reserves the right to review and approve the change. For additional information on professional liability insurance see Section 21.17.

This insurance must cover all of the following on the Property:

- Buildings
- Common areas and elements
- Commercial spaces
- Public ways (roads, driveways, alleys, walks, paths, and other similar areas)

At a minimum, the Borrower must maintain a CGL policy for

- $1 million per occurrence, and
- $2 million in the annual aggregate

The umbrella or excess liability policy provides liability insurance coverage over and above the limit of the CGL policy. The umbrella policy may also provide broader coverage than the CGL. If the required coverage is provided in the CGL policy, an umbrella and/or an excess policy is not required.

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31A.16(b): Liability insurance for one Property (07/01/11)

If the CGL provides the minimum coverage of $1 million per occurrence and $2 million in the annual aggregate for one Property, the minimum umbrella or excess liability requirements provided below must be met. If the CGL coverage is greater than the minimum, the umbrella or excess liability coverage may be reduced or eliminated, as described below:

If coverage for the CGL is $1 million per occurrence and $2 million in the annual aggregate, the minimum umbrella or excess liability policy requirements are as follows:		
Number of stories	**UPB**	**Minimum per occurrence* and annual aggregate**
1 to 3	≤ $3 million	None required
1 to 7	> $3 million	$1 million per story
8 or more	> $3 million	$8 million
If coverage for the CGL is greater than $1 million per occurrence and $2 million in the annual aggregate, the umbrella or excess liability policy coverage may be reduced or eliminated provided that the total CGL and umbrella or excess liability coverage or CGL coverage complies with the following:		
Total minimum CGL and umbrella or excess liability coverage or CGL coverage		

Number of stories	UPB	Minimum per occurrence*	Minimum annual aggregate
1 to 3	≤ $3 million	None required	
1	> $3 million	$2 million	$3 million
2	> $3 million	$3 million	$4 million
3	> $3 million	$4 million	$5 million
4	> $3 million	$5 million	$6 million
5	> $3 million	$6 million	$7 million
6	> $3 million	$7 million	$8 million
7	> $3 million	$8 million	$9 million
8 or more	> $3 million	$9 million	$10 million
* Per occurrence applies if the policy is written on a “claims made” policy form or an “occurrence-based” policy form.			

Agency Guides/Freddie Mac Multifamily/Multifamily Seller/Servicer Guide/Chs. 29-35: Closing, Delivery and File Retention/Chapter 31A: Insurance Requirements (on or after 07/01/11)/31A.16: Borrower’s general liability insurance/31A.16(c): Liability insurance for multiple properties (07/01/11)

31A.16(c): Liability insurance for multiple properties (07/01/11)

The Seller/Servicer must, to its satisfaction, determine, support and document in the Mortgage File that the liability insurance covering more than one property complies with the following minimum requirements.

Number of properties covered by the policy	Maximum number of stories in any of the covered properties	Minimum CGL insurance	Minimum umbrella or excess liability in millions
2 to 3	3	• $1 million per occurrence* • $2 million in the annual aggregate (per location)	$ 3
2 to 3	>3		$10
4 to 5	3		$ 5
4 to 5	>3		$12
6 to 10	3		$ 7
6 to 10	>3		$15
11 to 19	3		$ 9
11 to 19	>3		$20
20 or more	3		$15
20 or more	>3		$30

Each CGL policy insuring multiple properties must include a per location aggregate.

* Per occurrence applies if the policy is written on a “claims made” policy form or an “occurrence-based” policy form.

Freddie Mac recommends that the Seller/Servicer retain in the Mortgage File all information (such as the statement of values with the number of stories and other data relevant to the coverage limits in the policy) obtained from the Borrower or other sources that the Seller/Servicer used to evaluate the adequacy of the liability insurance.

Agency Guides/Freddie Mac Multifamily/Multifamily Seller/Servicer Guide/Chs. 29-35: Closing,

Delivery and File Retention/Chapter 31A: Insurance Requirements (on or after 07/01/11)/31A.16: Borrower's general liability insurance/31A.16(d): Maximum deductible and Self-Insured Retention (SIR) for liability insurance (07/01/11)

31A.16(d): Maximum deductible and Self-Insured Retention (SIR) for liability insurance (07/01/11)

The term Self-Insured Retention (SIR), when used in this chapter, refers to a characteristic that may generally be found in liability policies. The SIR requires that the Borrower take the first portion of the loss and/or pay certain expenses up to the SIR limit before an insurance policy provides coverage.

The following maximums apply to all forms of liability insurance on the Property, including CGL policies, umbrella policies and excess liability policies:

- The maximum deductible or SIR, or combined deductible and SIR for all forms of individual liability insurance is $35,000 per occurrence.
- The maximum deductible or SIR, or combined deductible and SIR for all forms of liability insurance for multiple properties is $50,000 per occurrence.

Agency Guides/Freddie Mac Multifamily/Multifamily Seller/Servicer Guide/Chs. 29-35: Closing, Delivery and File Retention/Chapter 31A: Insurance Requirements (on or after 07/01/11)/31A.16: Borrower's general liability insurance/31A.16(e): Vehicle liability insurance (07/01/11)

31A.16(e): Vehicle liability insurance (07/01/11)

If the Borrower and/or the Property owns, leases, hires, rents, borrows, uses, or has another use on its behalf a vehicle in conjunction with the operation of the Property, the Borrower must maintain vehicle liability insurance of at least $1 million per accident.

Agency Guides/Freddie Mac Multifamily/Multifamily Seller/Servicer Guide/Chs. 29-35: Closing, Delivery and File Retention/Chapter 31A: Insurance Requirements (on or after 07/01/11)/31A.16: Borrower's general liability insurance/31A.16(f): Exclusions from CGL or other liability insurance policy (05/07/07)

31A.16(f): Exclusions from CGL or other liability insurance policy (05/07/07)

If a Property contains any special hazard that is excluded from the CGL or other liability policy, such as garage operation or swimming pool, the Borrower must provide supplemental coverage for the hazard.

Agency Guides/Freddie Mac Multifamily/Multifamily Seller/Servicer Guide/Chs. 29-35: Closing, Delivery and File Retention/Chapter 31A: Insurance Requirements (on or after 07/01/11)/31A.16: Borrower's general liability insurance/31A.16(g): Other liability coverage (07/01/11)

31A.16(g): Other liability coverage (07/01/11)

The Borrower must also carry any additional liability coverage commonly required by institutional mortgage investors for properties that are similar to the Property in construction, location and use.

Freddie Mac reserves the right to require higher policy limits for a Property that Freddie Mac believes has higher risks.

Each Seniors Housing Property that has assisted living, Alzheimer's care and/or skilled nursing units must also obtain professional liability insurance as set forth in Section 21.17.

Agency Guides/Freddie Mac Multifamily/Multifamily Seller/Servicer Guide/Chs. 29-35: Closing, Delivery and File Retention/Chapter 31A: Insurance Requirements (on or after 07/01/11)/31A.17: Cooperative (Co-op) Borrower's fidelity bond/crime insurance coverage (07/01/11)

31A.17: Cooperative (Co-op) Borrower's fidelity bond/crime insurance coverage (07/01/11)

The Seller/Servicer must ensure that each Co-op Borrower maintains fidelity bond/crime insurance coverage for the Co-op's employees, officers and board members. The minimum coverage required is the greater of

- Two times the monthly gross association fees plus reserves, or
- Six times the monthly gross association fees

The maximum deductible is $25,000.

Agency Guides/Freddie Mac Multifamily/Multifamily Seller/Servicer Guide/Chs. 29-35: Closing, Delivery and File Retention/Chapter 31A: Insurance Requirements (on or after 07/01/11)/31A.18: Cooperative (Co-op) directors' and officers' liability insurance (07/01/11)

31A.18: Cooperative (Co-op) directors' and officers' liability insurance (07/01/11)

The Seller/Servicer must ensure that each Co-op maintains directors' and officers' liability insurance as follows:

- Minimum coverage of $1 million per occurrence
- Maximum deductible of $25,000

Agency Guides/Freddie Mac Multifamily/Multifamily Seller/Servicer Guide/Chs. 29-35: Closing, Delivery and File Retention/Chapter 31A: Insurance Requirements (on or after 07/01/11)/31A.19: Evidence of insurance for underwriting and final delivery (07/01/11)/31A.19: Evidence of insurance for underwriting and final delivery (07/01/11)

31A.19: Evidence of insurance for underwriting and final delivery (07/01/11)

This section provides the requirements for documenting evidence of insurance in the underwriting package, and in the final delivery package or prior to the Origination Date of the Mortgage. See Section 31A.22 for information regarding evidence of insurance for renewals.

Agency Guides/Freddie Mac Multifamily/Multifamily Seller/Servicer Guide/Chs. 29-35: Closing, Delivery and File Retention/Chapter 31A: Insurance Requirements (on or after 07/01/11)/31A.19: Evidence of insurance for underwriting and final delivery (07/01/11)/31A.19(a): Evidence of insurance documentation in the underwriting package (07/01/11)

31A.19(a): Evidence of insurance documentation in the underwriting package (07/01/11)

The Seller/Servicer must provide documentation to Freddie Mac in the underwriting package to verify that the Property has, or will have as of the Freddie Mac Funding Date, adequate property damage and liability insurance coverage as required by the Purchase and Servicing Documents. The documentation required by

Freddie Mac in the underwriting package is as follows:

- Fully completed (but not executed) Freddie Mac Form 1133, Seller/Servicer Certification of Insurance Coverage
- The documents listed in Sections 31A.20(a) through 31A.20(c), as applicable

If the insurance will not meet the Freddie Mac insurance requirements, the Seller/Servicer must contact the *Applicable Freddie Mac Multifamily Regional Office*.

Agency Guides/Freddie Mac Multifamily/Multifamily Seller/Servicer Guide/Chs. 29-35: Closing, Delivery and File Retention/Chapter 31A: Insurance Requirements (on or after 07/01/11)/31A.19: Evidence of insurance for underwriting and final delivery (07/01/11)/31A.19(b): Evidence of insurance documentation prior to the Origination Date (07/01/11)

31A.19(b): Evidence of insurance documentation prior to the Origination Date (07/01/11)

The Seller/Servicer must provide documentation to Freddie Mac prior to the Origination Date to verify that the Property has adequate property damage and liability coverage, as required by the Purchase and Servicing Documents. If the documentation is delivered by Multifamily DMS, the Seller/Servicer does not need to include a copy of the insurance documentation in the final delivery package. If the insurance documentation is not delivered by Multifamily DMS, a copy of the insurance documentation must be included in the final delivery package.

The documentation required by Freddie Mac prior to the Origination Date, or in the final delivery package, is as follows:

- Fully completed and executed Freddie Mac Form 1133, Seller/Servicer Certification of Insurance Coverage
- The documents listed in Sections 31A.20(a) through 31A.20(c), as applicable

An officer of the Seller/Servicer who is authorized to sign the certification must execute the certification of Form 1133. In addition, the executed Form 1133 submitted to Freddie Mac must include the same (or better) insurance coverage as the Form 1133 submitted to Freddie Mac in the full underwriting package, except as modified or amended by Freddie Mac at underwriting.

The Seller/Servicer must retain in the Mortgage File a copy of all insurance documentation provided to Freddie Mac prior to the Origination Date of the Mortgage or in the final delivery package. In addition, the Seller/Servicer must retain in the Mortgage File:

- A legible copy of each original insurance policy (including the individual policy or policies and/or the Blanket Insurance policy or master program) or duplicate original(s) for property damage and liability insurance for the Property
- A legible copy or duplicate original of the National Flood Insurance Program (NFIP) Policy Declarations page, if flood insurance is provided by NFIP

Agency Guides/Freddie Mac Multifamily/Multifamily Seller/Servicer Guide/Chs. 29-35: Closing, Delivery and File Retention/Chapter 31A: Insurance Requirements (on or after 07/01/11)/31A.20: Documents to be included in the evidence of insurance (07/01/11)/31A.20: Documents to be included in the evidence of insurance (07/01/11)

31A.20: Documents to be included in the evidence of insurance (07/01/11)

This section lists the documents that Freddie Mac will accept as evidence of property insurance and liability insurance in the underwriting package, in the final delivery package or prior to the Origination Date of the Mortgage, and at renewal. See Section 31A.19 for additional requirements that apply only to evidence of insurance at underwriting and final delivery. See Section 31A.22 for additional requirements that apply only to evidence of insurance for renewals.

Agency Guides/Freddie Mac Multifamily/Multifamily Seller/Servicer Guide/Chs. 29-35: Closing, Delivery and File Retention/Chapter 31A: Insurance Requirements (on or after 07/01/11)/31A.20: Documents to be included in the evidence of insurance (07/01/11)/31A.20(a): Acceptable evidence of property insurance, including private flood insurance (07/01/11)

31A.20(a): Acceptable evidence of property insurance, including private flood insurance (07/01/11)

Freddie Mac will accept a legible copy or duplicate original of any one of the following for each policy:

- ACORD Form 28, Evidence of Commercial Property Insurance, meeting the requirements in Section 31A.21(b) and 31A.21(c)
- ACORD Form 27, Evidence of Property Insurance, meeting the requirements in Section 31A.21(b) and 31A.21(c)
- ACORD 75, Insurance Binder
- Other equivalent documentation issued by an insurance company that does not use ACORD forms (such as a certificate of insurance or evidence of insurance)
- Property damage insurance policy including all endorsements, exclusions and any other items referenced in the policy

Each document provided must confirm that the insurance policy has been issued and is in force, and must meet the requirements of Section 31A.21(a).

Agency Guides/Freddie Mac Multifamily/Multifamily Seller/Servicer Guide/Chs. 29-35: Closing, Delivery and File Retention/Chapter 31A: Insurance Requirements (on or after 07/01/11)/31A.20: Documents to be included in the evidence of insurance (07/01/11)/31A.20(b): Acceptable evidence of National Flood Insurance Program (NFIP) flood insurance (07/01/11)

31A.20(b): Acceptable evidence of National Flood Insurance Program (NFIP) flood insurance (07/01/11)

If flood insurance is provided by NFIP, Freddie Mac will accept a legible copy or duplicate original of any one of the following for each NFIP flood policy:

- Copy of the Policy Declarations page of the NFIP policy
- Completed and executed NFIP Flood Insurance Application plus a copy of the Borrower's premium payment check or agent's paid receipt and agent certification that the policy is issued and is in force
- Completed and executed NFIP Flood Insurance Application plus a copy of the settlement statement reflecting the payment of the flood insurance premium on, or prior to, the Origination Date of the Mortgage and agent certification that the policy has been issued and is in force
- Completed and executed NFIP General Change Endorsement Form showing the assignment of the current flood insurance policy by the Property seller to the Borrower and the corresponding Policy

Declarations page

Each document provided must confirm that the insurance policy has been issued and is in force, and must meet the requirements of Section 31A.21(a).

Agency Guides/Freddie Mac Multifamily/Multifamily Seller/Servicer Guide/Chs. 29-35: Closing, Delivery and File Retention/Chapter 31A: Insurance Requirements (on or after 07/01/11)/31A.20: Documents to be included in the evidence of insurance (07/01/11)/31A.20(c): Acceptable evidence of liability insurance (07/01/11)

31A.20(c): Acceptable evidence of liability insurance (07/01/11)

Freddie Mac will accept a legible copy or duplicate original of at least one of the following for each policy:

- ACORD Form 25, Certificate of Liability Insurance
- ACORD 75, Insurance binder
- Other equivalent documentation issued by an insurance company that does not use ACORD forms (such as a certificate of insurance or evidence of insurance)
- Liability insurance policy including all endorsements, exclusions and any other items referenced in the policy

Each document provided must confirm that the insurance policy has been issued and is in force, and must meet the requirements of Section 31A.21(a).

Agency Guides/Freddie Mac Multifamily/Multifamily Seller/Servicer Guide/Chs. 29-35: Closing, Delivery and File Retention/Chapter 31A: Insurance Requirements (on or after 07/01/11)/31A.21: General requirements applicable to all property damage and liability insurance documentation (07/01/11)/31A.21: General requirements applicable to all property damage and liability insurance documentation (07/01/11)

31A.21: General requirements applicable to all property damage and liability insurance documentation (07/01/11)

This section contains requirements that apply to all insurance documentation, regardless of whether it is provided to Freddie Mac in an underwriting package, in the final delivery package, prior to the Origination Date of the Mortgage or at renewal.

Agency Guides/Freddie Mac Multifamily/Multifamily Seller/Servicer Guide/Chs. 29-35: Closing, Delivery and File Retention/Chapter 31A: Insurance Requirements (on or after 07/01/11)/31A.21: General requirements applicable to all property damage and liability insurance documentation (07/01/11)/31A.21(a): General requirements applicable to insurance documentation (07/01/11)

31A.21(a): General requirements applicable to insurance documentation (07/01/11)

All insurance documentation must meet the following requirements:

- The documentation must include the address or addresses of the Property or Properties being insured and the amount of coverage attributable to each Property.
- Each form of documentation provided to document the insurance coverage must be sufficiently detailed to confirm that the insurance coverage (including the Agreed Amount provision, deductible,

self-insured retention (SIR) and other requirements) required by the Purchase and Servicing Documents is or will be in effect as of the Freddie Mac Funding Date

- For an underwriting package or a final delivery package pertaining to the refinance of an existing mortgage not owned by Freddie Mac, the mortgagee or mortgage holders clause and additional insured endorsement must be changed to reflect the requirements of the Guide as of the Origination Date of the Mortgage

Agency Guides/Freddie Mac Multifamily/Multifamily Seller/Servicer Guide/Chs. 29-35: Closing, Delivery and File Retention/Chapter 31A: Insurance Requirements (on or after 07/01/11)/31A.21: General requirements applicable to all property damage and liability insurance documentation (07/01/11)/31A.21(b): ACORD 27 and 28 requirements (07/01/11)

31A.21(b): ACORD 27 and 28 requirements (07/01/11)

Freddie Mac will accept evidence of property damage insurance on ACORD 27 or ACORD 28 provided that the form includes the language in item 1 and 2 below:

1. Confirmation that the policies have been issued:

   a. This is evidence that insurance as identified below has been issued, is in force, and conveys all the rights and privileges afforded under the policy, or

   b. Property information section: the policies of insurance listed below have been issued to the insured named above for the policy period indicated notwithstanding any requirement, term or condition of any contract or other document with respect to which this evidence of property insurance may be issued or may pertain, the insurance afforded by the policies described herein is subject to all the terms, exclusions and conditions of such policies, or

   c. Other language similar to the intent and effect of items 1(a) and 1(b) above, confirming that the policy or policies have been issued.

2. Cancellation section

   a. Should any of the above described policies be cancelled before the expiration date thereof, notice will be delivered in accordance with the policy provisions, or

   b. Should the policy be terminated, the company will give the additional interest identified below ____ days written notice, and will send notification of any changes to the policy that would affect that interest, in accordance with the policy provisions or as required by law, or

   c. Other language similar to the intent and effect of items 2(a) and 2(b) above, confirming that the company will notify the applicable parties of the cancellation.

Agency Guides/Freddie Mac Multifamily/Multifamily Seller/Servicer Guide/Chs. 29-35: Closing, Delivery and File Retention/Chapter 31A: Insurance Requirements (on or after 07/01/11)/31A.21: General requirements applicable to all property damage and liability insurance documentation (07/01/11)/31A.21(c): Unacceptable language on ACORD 27 and 28 (07/01/11)

31A.21(c): Unacceptable language on ACORD 27 and 28 (07/01/11)

Freddie Mac will not accept evidence of property damage insurance on ACORD 27 or 28 if the ACORD includes the following language:

1. Should any of the above described policies be cancelled before the expiration date thereof, the issuing insurer will endeavor to mail ____ days written notice to the additional interest named below, but

failure to mail such notice shall impose no obligation or liability of any kind upon the insurer, its agents or representatives, or

2. Other language similar to the intent and effect of the language above stating that the insurer will "endeavor" to mail notice and/or language that imposes no obligation or liability on the insurer for failure to notify.

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31A.22(a): Required coverage (07/01/11)

The Servicer must ensure that all insurance coverage, as required by the Purchase and Servicing Documents, is in place for the life of the Mortgage. This may include

- Adding coverage that is not currently in place (for example, FEMA has determined the Property is now in an SFHA and flood insurance is now required), and/or

- Increasing the coverage (for example, the Replacement Cost of the improvements on the Property has increased and the insurance coverage must be updated).

In addition, if there is insurance coverage in force on the Property that is no longer required by Freddie Mac (for example, FEMA has determined the Property is no longer in an SFHA and flood insurance is not required) the Servicer must provide the appropriate documentation to notify Freddie Mac *Multifamily Asset Management, Low Risk Loans* and explain that the insurance is no longer required.

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31A.22(b): Continuing coverage (07/01/11)

At least annually, and prior to the expiration of each required insurance policy, the Servicer must verify that the Borrower will renew the existing coverage and/or obtain new insurance coverage in compliance with the Purchase and Servicing Documents. The Servicer must retain in the Mortgage File a copy of the applicable renewal and/or new insurance documentation.

The Servicer must require the Borrower to provide evidence of renewed insurance prior to the expiration date of each policy. The documentation required by Freddie Mac at renewal is as follows:

- A legible copy of the current continuation certificate, provided that the Servicer has the original policy on file and the coverage is renewed with the same insurer and under the same policy number(s), coverage terms and conditions

- The documents listed in Sections 31A.20(a) through 31A.20(c), as applicable

See also the annual certification requirements in Section 31A.4(a) and 31A.5(a).

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31A.23: Reinstatement of coverage (05/07/07)

If the insurer issues a property damage insurance policy that reduces the amount of insurance after each claim is paid, then immediately following a loss, the Seller/Servicer must require the Borrower to have the insurer increase the limits of the policy to the full policy limits that existed prior to the loss.

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31A.24(a): General requirements for ensuring continuous insurance coverage (07/01/11)

The Seller/Servicer must ensure that all Properties are continuously covered by the insurance policies required by the Purchase and Servicing Documents for the life of the Mortgage.

If the Seller/Servicer determines that a Property's insurance has lapsed, is cancelled, is inadequate, or is not in force for any reason, the Seller/Servicer must prevent a gap in insurance by one or more of the following means:

- Contacting the Borrower and working with the Borrower to resolve the deficiency
- Having in place or obtaining a portfolio insurance policy and/or other insurance vehicle or vehicles designed to provide required coverage if one or more policies lapses, is cancelled, is inadequate or is not in force
- Implementing forced placed insurance

Any insurance policy intended to prevent a gap in insurance coverage, or to supplement inadequate coverage, must:

- Provide retroactive and/or automatic coverage
- Cover the Mortgages serviced for Freddie Mac
- Include deductibles no greater than those required by the Purchase and Servicing Documents
- Provide all property damage and liability insurance required by the Purchase and Servicing Documents
- Be provided by an insurance carrier meeting the requirements of Section 31A.3, based on the total unpaid principal balance (UPB) of the Mortgages insured under the policy by the Seller/Servicer

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31A.24(b): Forced placed insurance (07/01/11)

Under certain circumstances, Freddie Mac requires the use of forced placed insurance to prevent a lapse in insurance coverage. If the required forced placed insurance is not available, the Seller/Servicer must contact Freddie Mac *Multifamily Asset Management, Low Risk Loans*.

1. If one or more of the following conditions exists, the Seller/Servicer must force place insurance:

- The required insurance has lapsed or has been cancelled or is not in force for any other reason
- The required insurance has not yet lapsed or been cancelled, but will lapse within three days (or over an intervening weekend or holiday), and
    - The Servicer determines that the renewal of the existing insurance or new insurance is not forthcoming, or
    - The Servicer has not been able to determine that the renewal of the existing insurance or new insurance is forthcoming
- Any insurance obtained by the Servicer to prevent a lapse in coverage is no longer in force or will no longer be in force within three days (or over an intervening weekend or holiday)

2. If both of the following conditions exist, the Seller/Servicer must contact the Borrower within two days of the Servicer's learning of the condition and must work with the Borrower to resolve the deficiency:

    - The insurance currently in force provides less than 80 percent of the required coverage (see Note below)
    - A lapse in coverage is not imminent

    If the issue is not resolved with 15 days, the Servicer must either

    - Force place insurance to the limits required in Purchase and Servicing Documents, or
    - Request a waiver of the insurance coverage from Freddie Mac or recommend an alternative solution to the insurance issue.

    The waiver request or recommendation must be submitted to Freddie Mac *Multifamily Asset Management, Low Risk Loans* on the Multifamily Portfolio Services Insurance Waiver Request Form (for nondelegated waivers) available via MultiSuite®. The Servicer must provide justification for the recommendation on the form. Multifamily Portfolio Services may accept the Servicer's recommendation, recommend an alternative solution, or require the Servicer to force place increased insurance coverage to the limits required in this chapter.

    Note: The percentage of coverage refers to the actual dollar amount of insurance coverage in force for a Property and not the deductible amounts. For example, if a Property has property damage insurance of $7 million, but the Replacement Cost is $10 million, the coverage is 70 percent of the required coverage.

3. If one or more of the following conditions exist, the Seller/Servicer must contact the Borrower within five days of the Servicer's learning of the condition and must work with the Borrower to resolve the deficiency:

    - The insurance coverage currently in force is greater than 80 percent, but less than 100 percent, of the required coverage (see Note above)
    - Deductible amounts do not comply with the requirements
    - Any other failure of the insurance policy to be comply with the requirements of the Purchase and Servicing Documents

    If the issue is not resolved with 30 days, the Servicer must either

- Force place insurance to the limits required in the Purchase and Servicing Documents, or
- Request a waiver of the insurance coverage or recommend an alternative solution to the insurance issue.

The waiver request or recommendation must be submitted to Freddie Mac *Multifamily Asset Management, Low Risk Loans* on the Multifamily Portfolio Services Insurance Waiver Request Form (for nondelegated waivers) available via MultiSuite. The Servicer must provide justification for the recommendation on the form. Freddie Mac *Multifamily Asset Management, Low Risk Loans* may accept the Servicer's recommendation, recommend an alternative solution, or require the Servicer to force place increased insurance coverage to the limits required in this chapter.

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31A.24(c): Notice to Freddie Mac of forced placed insurance (07/01/11)

If coverage is forced placed as described in 31A.24(b), the Servicer must immediately send written notification to Freddie Mac *Multifamily Asset Management, Low Risk Loans* detailing the insurance issues, the forced placed coverage and the deductibles. The Servicer must retain in the Mortgage File a copy of the written notification regarding forced placed insurance.

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31A.24(d): Payment for forced placed insurance (07/01/11)

The Servicer must adjust the Borrower's Escrow payments for the forced placed insurance if the Borrower is required to make periodic Escrow deposits for insurance premiums or bill the Borrower to recover the advance (if the Servicer does not maintain an Escrow account for the Borrower). If an insurance Escrow account is not currently required, Freddie Mac may require the Servicer to set up an insurance Escrow account. If the Borrower refuses to reimburse the Servicer for the forced placed insurance, the Servicer must submit a completed Legal Referral Form, Form 1101, to the Director of Freddie Mac *Multifamily Asset Management, Low Risk Loans*. Freddie Mac will reimburse the Servicer for any advances that the Servicer has made for premiums for such forced placed insurance to the same extent that Freddie Mac would reimburse the Servicer for advances to pay required insurance premiums.

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31A.25: Indemnification (07/01/11)

Pursuant to Chapter 47, Freddie Mac may require the Seller/Servicer to indemnify Freddie Mac for any loss, damage or expense it may incur as a result of the Seller/Servicer's failure to

- Obtain and maintain all insurance required by this chapter, or
- Ensure that each Property is adequately insured as required in this chapter

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31A.26: Insurance requirements for third party consultants and inspectors (07/01/11)

Certain third party consultants and inspectors (appraisers, property condition consultants, architects, environmental consultants and fee inspector companies (FIC)) must have the following insurance in place while traveling to and from the Property to conduct the inspection or Appraisal, as well as during the inspection or Appraisal, as applicable:

- Commercial General Liability (CGL) insurance with limits of at least $1 million per occurrence and $2 million aggregate with a maximum deductible amount of $35,000
- Worker's Compensation insurance as required by law
- Automobile liability insurance for all owned (if any), non-owned and hired vehicles of $1 million per accident
- Professional Liability insurance with limits of $1 million per claim and $2 million aggregate (required for appraisers, engineering consultants, architects and environmental consultants only) with a maximum deductible amount of $100,000
- All policies must be issued by an insurance carrier rated either Standard & Poor's Insurer Solvency Review "BBB" or better, or AM Best A-, VI, or higher (i.e., A-, X; A, VI, etc.)

Annually, third party consultants and inspectors must provide the Seller/Servicer with an original certificate (s) of liability insurance, which the Seller/Servicer must maintain on file.

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31A.27: Captive insurance companies (07/01/11)

For information regarding the use of captive insurance companies, contact the *Applicable Regional Office* prior to the Origination Date or Freddie Mac *Multifamily Asset Management, Low Risk Loans* after the Freddie Mac Funding Date.