

Servicing Guide Announcement SVC-2011-23

December 28, 2011

Condominium Insurance Requirements

This Announcement describes policy changes to the following:

- Requirements for master or blanket insurance policies that combine insurance coverage for multiple condominiums and other residential or substantially residential projects that are unaffiliated,
- HO-6 insurance policy coverage amount, and
- HO-6 insurance requirements and elimination of “walls-in” insurance coverage terminology.

Effective Date

These policy updates are effective for mortgage loans with application dates on or after January 1, 2012.

Master/Blanket Insurance for Unaffiliated Condominium Associations or Projects

Servicing Guide, Part II, Section 205: Coverage Required for Units in Condominium Projects

Fannie Mae recognizes that it may be difficult for a servicer to identify if a condominium project has insurance provided under a master or blanket insurance policy that is combining insurance coverage for multiple condominiums and other residential or substantially residential projects that are unaffiliated by using just the certificate of insurance. Therefore, when reviewing the insurance on a condominium project, the servicer must obtain the insurance policy as well as all of the necessary schedules, endorsements, statement of values, or other associated documents to appropriately evaluate the insurance coverage.

NOTE: Affiliated projects include those that are under the same master association or share the use of common facilities that are either owned individually or as part of a master association/development. Multiple condominium or PUD projects that do not have one of these characteristics, but are managed by the same management company, are not considered to be affiliated projects.

If a servicer determines that a condominium project is covered by a master or blanket insurance policy that is combining insurance coverage for multiple condominiums and other residential or substantially residential projects that are unaffiliated, the servicer must ensure the policy meets all of the following requirements:

- The insurance policy coverage limits must meet the higher of the following:
 - be greater than or equal to 50% of the total insurable replacement value for all condominiums and other residential or substantially residential projects insured under the policy, or
 - be greater than or equal to 150% of the total insurable replacement value for the single largest condominium or other residential or substantially residential project insured under the policy but not more than 100% of the total insurable replacement value for all condominiums and other residential or substantially residential projects insured under the policy.
- The policy or endorsements must have a provision that:

- clearly states that insurance is being provided under a master or blanket insurance policy that is combining insurance coverage for multiple unaffiliated condominiums or other residential or substantially residential projects,
- clearly states that loss limits must apply per occurrence and loss claims will be paid per occurrence,
- reinstates the original per occurrence coverage limit after each loss occurrence or claim so that the full original per occurrence limit is immediately available for any subsequent loss for any perils required by Fannie Mae,
- includes a Coinsurance Waiver, and
- clearly states that each condominium or residential or substantially residential project is a named insured.

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

The policy or endorsements must have a cancellation provision requiring each insurance company or their authorized designee or administrator to notify the named insured at least 30 days in advance of any policy reduction or cancellation for any reason except non-payment of premium. In the event of cancellation for non-payment of premium, there must be a provision that provides for at least a 10-day written notification to the homeowners' association (or insurance trustee) and each first mortgage loan holder in the mortgagee clause before it cancels or substantially changes coverage.

- Insurance companies underwriting the master or blanket insurance coverage must meet Fannie Mae's insurance ratings requirements (Part II, Section 202.01: Rated Insurance Underwriters of the *Servicing Guide*).
- Any company, group, sponsor, individual or administrator (and the underwriter(s)) providing these types of policies must meet Fannie Mae's insurance ratings requirements and must maintain the minimum or better rating.

Alternatively, if any company, group, sponsor, individual or administrator providing these types of policies has never been rated by A.M. Best, Standard and Poor's, or Demotech, they must be licensed to sell insurance or have a principal or officer of the company licensed to sell insurance, within the state or territory where its corporate headquarters are subject to supervision and regulation by a federal or state insurance agency.

- The insurance policy must comply with all of the other insurance requirements in the Fannie Mae *Selling Guide* and *Servicing Guide*.

After the servicer has confirmed a condominium project's insurance policy is acceptable, it may use this confirmation as evidence in approving the insurance coverage provided for other condominium units insured under the same policy within that project or association. However, the servicer is still ultimately responsible for confirming that the insurance policy meets Fannie Mae's requirements.

Annually or at the time of policy renewal, the servicer must confirm the insurance coverage provided under the policy remains in force for units covered and continues to meet the requirements stated above.

HO-6 Insurance Policy Coverage Amount

Servicing Guide Part II, Chapter 2, Section 205, Coverage Required for Units in Condominium Projects

Currently the Fannie Mae *Servicing Guide* states that an HO-6 insurance policy must provide coverage in an amount that is no less than 20% of the condominium unit's appraised value.

Fannie Mae will now require that an HO-6 insurance policy must provide coverage, as determined by the insurer that is sufficient to repair the condominium unit to at least its condition prior to a loss claim event.

Revisions to HO-6 Requirements and Elimination of “Walls-in” Insurance Coverage Terminology

Servicing Guide Part II, Chapter 2, Section 205, Coverage Required for Units in Condominium Projects

Currently the Fannie Mae *Servicing Guide* states if the master or blanket policy does not cover the unit's interior, then the borrower must obtain a “walls-in” policy (commonly known as an HO-6 policy).

Fannie Mae is eliminating the use of the term “walls-in” policy and is revising the requirements for a condominium homeowner's association master or blanket insurance policy. The new requirements are described below.

- A “single entity” policy -- the policy must cover all of the general and limited common elements that are normally included in coverage. These include fixtures, building service equipment, and common personal property and supplies belonging to the homeowners' association. The policy also must cover fixtures, equipment, and replacement of improvements and betterment coverage to cover any improvements that have been made inside the individual unit. If the unit interior improvements are not included under the terms of this policy type, the borrower is required to have an HO-6 policy with coverage, as determined by the insurer, which is sufficient to repair the condo unit to its condition prior to a loss claim event.
- An “all-in” (sometimes known as an “all inclusive”) policy -- the policy must cover all of the general and limited common elements that are normally included in coverage. These include fixtures, building service equipment, and common personal property and supplies belonging to the homeowners' association. The policy also must provide coverage for fixtures, equipment, and replacement of improvements and betterments that have been made. As such, a borrower is not required to have an HO-6 policy. If the unit interior improvements are not included under the terms of this policy type, however, the borrower is required to have an HO-6 policy with coverage, as determined by the insurer, which is sufficient to repair the condo unit to its condition prior to a loss claim event.
- A “bare walls” policy – the policy typically provides no coverage for the interior of the condominium unit which includes fixtures, equipment, and replacement of improvements and betterments. As a result, a borrower will also be required to obtain an HO-6 policy.

For policies covering the common elements in a PUD project and for policies covering condominium or co-op projects, the maximum deductible amount must be no greater than 5% of the face amount of the policy. For blanket insurance policies that cover both the individual units and the common elements, the maximum deductible amount related to the individual unit should be no greater than 5% of the replacement value of the unit.

In the event that an HO-6 policy is required and cannot be obtained, the servicer should contact their Fannie Mae Servicing Consultant or Portfolio Manager.



Servicers should contact their Servicing Consultant, Portfolio Manager, Investor Reporting Business Analyst, or Fannie Mae's National Servicing Organization's Servicing Solutions Center at 1-888-FANNIE5 (888-326-6435) with any questions regarding this Announcement.

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