

**Announcement #24-50****Date:** May 17, 2024

## Property Insurance Sufficiency

At the direction of FHFA, Fannie Mae and Freddie Mac have updated their Selling Guides to provide more specificity regarding lender responsibilities to ensure that properties are covered by adequate insurance

The following updates apply to property insurance policies for 1–4-unit properties and master property insurance policies for project developments:

## Property Insurance Requirements

### 1-4 Unit Properties

Policies *must provide for claims to be settled on a replacement cost basis*. Insurance policies that provide for claims to be settled at actual cash value or limit, depreciate, reduce, or otherwise settle losses for less than a replacement cost basis are not eligible.

The insurance limits must equal the lesser of:

- 100% of the replacement cost of the improvements as of the current property insurance policy effective date, or
- The unpaid principal balance of the mortgage, provided it equals no less than 80% of the replacement cost value (RCV) of the improvements as of the current property insurance policy effective date.

*Lenders must verify the RCV* in order to complete the calculation above. The verification source may be the replacement cost estimator from the property insurer, an insurance risk appraisal, a statement from the property insurer, or the presence of a guaranteed replacement cost endorsement.

- The statement from the property insurer may be an email confirming/specifying the replacement cost of the improvements as of the current property insurance policy effective date such that the insurance limits meet the limits specified above.
- A statement from the borrower, or insurer or insurance industry professional not affiliated with the property insurer is not acceptable evidence.
- Additional coverage provided by an extended replacement cost endorsement may not be used to meet the minimum requirements above.
- The mere presence of the words “replacement cost” on the declaration page, ACORD form, or property insurer statement does not automatically mean the above limits are met.

If the coverage amount does not meet the minimum required, coverage that does provide the minimum required amount must be obtained.

### Master Property Insurance for Condominium and PUD<sup>1</sup> Projects

The following requirements apply for master property insurance coverage on project developments (condominiums and PUDs):

- The master policy coverage limits for condominium and PUD projects must be at least equal to 100% of the replacement cost value of the project's improvements, including common elements and residential structures, as of the current insurance policy effective date.
- The master policy must provide for claims to be settled on a replacement cost basis. Policies that provide for claims to be settled on an actual cash value basis or limit, depreciate, reduce, or otherwise settle for losses less than a replacement cost basis are ineligible.
- The lender must verify the project insurance coverage amount is not less than the minimum required as described above. The verification source may be the replacement cost estimator utilized by the insurance carrier, a recent insurance risk appraisal, a statement from the property insurer, or the presence of a guaranteed replacement cost endorsement.
  - An email from the insurance company validating the policy limit is 100% of the insurable value (or 100% replacement cost) is acceptable.
  - A statement from the HOA, or an insurer or insurance industry professional not affiliated with the property insurer is not acceptable evidence.
  - The mere presence of the words "replacement cost" on the declaration page, ACORD form, or property insurer statement does not automatically mean the above limits are met.

**Note:** An HO-6 policy cannot be utilized to satisfy insufficient master property insurance coverage. Building Ordinance or Law Coverage cannot be utilized to offset insufficient master property insurance coverage.

<sup>1</sup>Applies to PUD projects where the project's legal documents provide for a master property insurance policy that covers both the common elements and residential structures.

## Required Perils

### 1-4 Unit Properties

Property insurance policies for 1–4-unit properties should be written on a special coverage form or equivalent. At a minimum, the coverage must include the following perils:

- Fire
- Lightning

- Hail
- Explosion
- Windstorm
- Civil commotion
- Smoke
- Aircraft
- Vehicles
- Riot

If the property insurance policy excludes or limits coverage of any of the required perils, the borrower must obtain an acceptable standalone policy that provides adequate coverage for the excluded peril.

## Condominium and PUD<sup>1</sup> Project Developments

The homeowner's association must insure the building and other structures in the project as well as fixtures, machinery, equipment and supplies maintained for the service of the project.

- To the extent required, the homeowners' association must also insure fixtures, improvements, alterations, and equipment within the individual condominium or PUD units.
- If the homeowner's association's policy does not cover the interior of the unit or the improvements to the unit, an HO-6 unit owner policy must be obtained by the borrower. Coverage for the HO-6 unit owner policy must be sufficient to repair the unit to at least its condition prior to the claim.

Master property insurance coverage policies covering project developments should be written on a Special coverage form or equivalent. At a minimum, the coverage must include the perils covered by a commercial "Broad" coverage form, as listed in the following table.

- |                              |                     |
|------------------------------|---------------------|
| • Fire                       | • Explosion         |
| • Windstorm                  | • Aircraft          |
| • Lightning                  | • Vehicles          |
| • Hail                       | • Riot              |
| • Smoke                      | • Civil commotion   |
| • Water damage               | • Vandalism         |
| • Volcanic action            | • Sprinkler leakage |
| • Weight of snow, ice, sleet | • Falling object    |
|                              | • Sinkhole collapse |

If the property insurance policy excludes or limits coverage of any of the required perils, the HOA must obtain an acceptable standalone policy that provides adequate coverage for the excluded peril.

**Note:** An HO-6 policy cannot be utilized to satisfy exclusions of required perils in the master property insurance coverage.

## Deductible Requirements

### 1-4 Unit Properties

As a reminder, the following deductible requirements apply to 1–4-unit properties:

- The maximum allowable deductible for all required property insurance perils is 5% of the property insurance coverage amount.
- When a property insurance policy includes multiple deductibles (such as a separate deductible that applies to windstorms, or a separate deductible that applies to a specific property element such as the roof), the *total amount* for such deductibles applicable to a single occurrence must be no greater than 5% of the property insurance coverage amount.

### **Condominium and PUD<sup>1</sup> Project Developments**

The HOA's policy deductible may not exceed 5% of the limit maintained for building coverage for any required peril.

When a master property insurance policy includes multiple deductibles, such as a separate deductible that applies to windstorms, or a separate deductible that applies to a specific property element such as the roof, the total amount for *all* such deductibles applicable to a single occurrence must be no greater than 5% of the insurance coverage amount.

If the deductible exceeds the 5% maximum due to a per unit deductible for name perils in a geographic area (e.g., ice dam coverage), the borrower's HO-6 policy must include:

- The same perils as the HOA master policy; and
- Cover master policy assessments levied on the unit owner; and
- Carry a sufficient amount of loss assessment coverage to cover assessments in excess of 5% of the master policy coverage amount, divided by the number of units.

As a reminder, these updates supersede Announcement 23-45 and any prior verbal or written guidance we may have provided. The above does not represent all requirements for 1-4 properties and master property insurance requirements.

Please refer to the Fannie Mae and Freddie Mac Selling Guides for detailed requirements.

Lenders must comply with these clarified policies as soon as possible but are required to do so for all loans with application dates on or after June 1, 2024.

Please contact your Sales Representative with any questions