

FORM 4335 PROPERTY, LIABILITY AND OTHER INSURANCE REQUIREMENTS

PROPERTY, LIABILITY AND OTHER INSURANCE REQUIREMENTS

The Property securing each Mortgage must be continuously insured with acceptable property and liability insurance policies, meeting the requirements described herein. Unless otherwise stated, all insurance forms and policies refer to Insurance Services Office (ISO) forms and policies. The named insured in each policy must be the Borrower.

DESCRIPTION OF REQUIRED INSURANCE COVERAGES

The following insurance is required for every Property:

Property Damage Insurance

All of the following Property Damage Insurance policies, except for Boiler and Machinery, must provide for claims to be made on an occurrence basis. Boiler and Machinery may be made on an accident basis. Each policy must have a cancellation provision that provides that the carrier will notify the Lender in writing at least 30 days in advance of any policy reduction or cancellation for any reason except for non-payment of premium. (The cancellation provision must provide for at least a 10-day written notification for non-payment of premium.) Each policy must also include a mortgage clause acceptable to Fannie Mae. The clause must name Fannie Mae and/or its assigns in care of the Lender as their interests may appear.

Fire and Allied Perils

The Property must be covered by the equivalent of a fire policy endorsed to include all the extended coverage perils such as vandalism, malicious mischief, and other broad form perils. An "all risks" policy is recommended. In addition, the policy must include the following:

- an agreed value clause, which must be updated annually;

- ❑ replacement cost coverage, i.e., an endorsement or clause that provides for all claims to be made on a replacement cost basis (not on an actual cash value basis) and without any deduction being made for depreciation;
- ❑ a deductible of not more than \$5,000; and
- ❑ inflation guard coverage or equivalent coverage that ensures that the policy limit will be increased over time to reflect the effect of inflation.

The amount of the policy must be equal to the greater of 1 and 2 below:

1. An amount equal to the lesser of the unpaid principal balance of the Mortgage and 100 percent full replacement cost of the improvements (which may exclude outdoor swimming pools, fences, retaining walls not constituting a part of a building, walks, roadways, other paved surfaces, foundations, below ground pipes, flues and drains, outdoor signs, lawns, outdoor trees, shrubs and plants) without any deduction for depreciation.
2. The amount specified in the agreed value clause (i.e., the amount required by the insurer to suspend any coinsurance clause).

Ordinance or Law Coverage

Ordinance or law coverage is required for Properties that represent "non-conforming" uses under current, building, zoning, or land use laws or ordinances.

Ordinance or law coverage (ISO CP 04 05 or similar should be used) typically contains three coverages:

1. **Demolition Cost** - This is to cover the cost to demolish and clear the site of undamaged parts of the Property caused by enforcement of any building, zoning, or land use law or ordinance. The amount of coverage must be no less than the full demolition expense of the single largest structure on the Property.
2. **Loss to the Undamaged Portion of the Building** - This is to cover the cost of replacing any undamaged portion of the Property that is required to be demolished. This is not a separate limit of insurance and should automatically be provided when demolition coverage is

provided (see (1) above).

- 3. Increased Cost of Construction** - This is protection for structures that would fail to comply with building code if they were rebuilt to the same specifications. The amount of coverage must be sufficient to cover the increased cost over and above replacement cost to bring the single largest structure of the Property up to code.

General Boiler and Machinery Policy

A general boiler and machinery policy is required where steam boilers, pipes, turbines, engines or other pressure vessels are in operation on the Property. The policy should be in an amount equal to 100 percent of the full replacement cost (without any deduction for depreciation) of the building(s) housing the equipment. A rider to include electrical machinery and equipment, air conditioning, refrigeration and mechanical objects is recommended.

Sinkhole Insurance, Mine Subsidence Insurance and/or Earthquake Insurance

Such insurance is required for Properties in areas prone to these geologic phenomena.

Flood Insurance

Flood insurance is required for Property improvements located in a Special Flood Hazard Area ("SFHA") that has federally mandated flood insurance purchase requirements - i.e., any area designated by the Federal Emergency Management Agency (FEMA) as Zone A, AE, AH, AO, A1-30, A-99, V, VE, or V1-30. To determine if a Property is located within a SFHA, Lenders must use the most recent Flood Insurance Rate Map issued by FEMA, or if one is not available, the most recent Flood Hazard Boundary Map (also issued by FEMA). Flood insurance is not normally required if the Property improvements are not located within a SFHA, even though an unimproved portion of the Property may fall within such an area.

The Lender may require flood insurance for Property improvements located outside of a Special Flood Hazard Area but within an area designated by FEMA as a Zone B (area of moderate risk), Zone C (area of minimal risk), or Zone X (Flood Hazard Areas formerly designated as Zones B and C are designated on newer Flood Insurance Rate Maps as Zone X) if the Lender determines that conditions warrant it; for example, if the Property is in an

area that is subject to flooding due to stormwater or within close proximity to a Special Flood Hazard Area boundary. Fannie Mae may require coverage for Properties located in a Zone B or Zone C Flood Hazard Area on a case by case basis if Fannie Mae determines that conditions warrant such coverage.

The required amount of insurance per building is the lesser of (1) 100 percent of its full replacement cost (without any deduction for depreciation), or (2) the maximum amount of insurance available under the National Flood Insurance Program. The size of the deductible should be no more than \$3,000 per building.

If, after the Mortgage is sold to Fannie Mae, the Lender becomes aware that the area encompassing any of the Property improvements has been reclassified by FEMA as a SFHA, the Lender must require the Borrower to obtain a flood insurance policy.

Business Income Coverage

Business income (rent loss) insurance is required. Coverage for twelve months' business income is required for buildings that have elevators and/or are three or more stories high. For other properties, coverage for six months' is required; twelve months' coverage is recommended. The amount of insurance must be adjusted annually. A three-month extended period of indemnity is recommended to cover the period between the time the rental units are ready for occupancy and rent-up is achieved. The policy must include an endorsement that names the Federal National Mortgage Association and/or its assigns in care of the Lender as their interests may appear as loss payee.

Builder's Risk Insurance

Builder's risk coverage (completed value form) is required during reconstruction after an insured loss. This coverage is recommended during all periods of reconstruction and rehabilitation.

Commercial General Liability Insurance

Commercial General Liability Insurance is required. For all buildings, with or without elevators, the minimum limit of liability with respect to bodily injury or death and property damage is \$1,000,000 per occurrence with a \$2,000,000 minimum general aggregate limit. No deductible is allowed.

If the liability coverage is written on a blanket basis, the policy must have an amendment (e.g., ISO CG 2504) that will ensure that the aggregate limit of insurance will apply separately to each covered Property that is subject to a Mortgage held by Fannie Mae. Fannie Mae may require additional amounts of coverage if Fannie Mae determines that special risks exist (including, for example, space used for a day care center or other commercial facility).

Liability coverage must provide for claims to be made on an occurrence basis. The liability policy must have a certificate holder notice clause that includes a 30-day written notification requirement for a policy reduction or cancellation for any reason except non-payment of premium. (The cancellation provision must provide for at least a 10-day written notification for non-payment of premium.) Fannie Mae should be named as an additional insured under all liability insurance policies.

Worker's Compensation

Worker's compensation, or employer's liability insurance, is required if employees of the Borrower are required to be covered by worker's compensation laws of the applicable state.

INSURANCE CARRIER REQUIREMENTS

Each insurance company must be licensed and have:

- ❑ a Best's general policyholder's rating of A- or greater and a financial size category of V or greater (which equates to an adjusted policyholders' surplus of \$10-\$25 million); **OR**
- ❑ an A or better rating from Demotech, Inc., coupled with a policyholder's surplus of \$10 million or greater; **OR**
- ❑ either a BBBq qualified solvency ratio or a BBB or better claims-paying ability rating in Standard and Poor's Insurer Solvency Review, or a BBB or better claims-paying ability rating in Standard and Poor's International Confidential Rating Service.

Fannie Mae will also accept coverage from Lloyd's of London even though it has no Best's rating. Industrial Risk Insurers (IRI) insurance is also acceptable. Companies with lesser ratings are acceptable only if Fannie Mae is supplied with reinsurance agreements through an acceptably rated company. The reinsurance agreement must have a total value (100 percent) assumption of liability endorsement. In addition, reinsurance agreements must have at least 90 days notice of cancellation provisions.

EVIDENCE OF INSURANCE

Either originals or certified copies of current insurance policies must be kept in the Mortgage file. An ACORD Form 27 is the only acceptable form providing temporary evidence of insurance, but the Lender must not accept a binder, unless required to do so by state law. (If state law requires the acceptance of a binder as evidence of insurance, the Lender must ensure that the binder is renewed no less frequently than every 60 days.)

POLICY TERMS

All policies must be for a term of not less than one year. An existing policy with fewer than 12 months remaining on its term is acceptable. It is important when a policy has fewer than 12 months remaining that the Lender collect sufficient funds at closing and in the months following closing to ensure that adequate funds will be on deposit with the Lender to pay the next premium by the due date. The initial policies must be paid in full prior to loan delivery and may not be financed.

BLANKET POLICIES

The Borrower may comply with and satisfy the above requirements through the use of a blanket or package policy (or policies) of insurance covering the Property and other properties and liabilities of the Borrower, provided that the Property is listed and identifiable in the policy and there is a mortgage clause, naming Fannie Mae, that is specifically applicable to the Property.