Multifamily Seller/Servicer Guide

Chapter 31

Insurance Requirements

31.1 General insurance requirements and insurance terms (02/22/24)

This chapter states the Property and Liability Insurance requirements applicable to Multifamily loans purchased by Freddie Mac.

a. General requirements (06/30/16)

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 Loan Documents and the Purchase and Servicing Documents
- Ensure that the Borrower complies with all insurance requirements mandated by federal laws and by State and local laws of the jurisdiction where the Property is located
- Arrange for all insurance notices, policies, invoices and correspondence relating to any insurance policy to be delivered directly to the Seller/Servicer
- Comply with the stated insurance coverage and limit requirements in this Chapter 31 that are applicable to the Property
- Comply with all documentation, delivery and Servicing requirements of this Chapter 31

b. Requirements applicable only to SBL Mortgages (12/15/22)

1. Requirements for adequate property and liability insurance coverage

As of the Freddie Mac Funding Date and throughout the term of the SBL Mortgage, the Seller/Servicer must evaluate the insurance coverage and limits for each Property and ensure, to its satisfaction, that adequate property and liability insurance coverage is in place.

The term "Recommended Insurance Standards" means all of the standards for insurance coverage and limits as well as any related guaranty requirements set forth in this Chapter 31.

When evaluating the adequacy of the property and liability insurance coverage for the Property, the Seller/Servicer must refer to the Recommended Insurance Standards and must document, as specified in Section 31.1(b)(2), any insurance coverage limit, insured peril, or other aspect of the insurance coverage that differs from the Recommended Insurance Standards. The Seller/Servicer may approve insurance coverage for the Property that differs from the Recommend Insurance Standards provided that the Seller/Servicer ensures that the insurance coverage maintained for the Property includes adequate coverage for the kind of risks customarily insured against and in such minimum coverage and maximum deductibles as are customarily and generally acceptable to institutional lenders for properties comparable to the Property.

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

- Ensure that the Borrower and the Property are covered by all insurance policies required by the Loan Documents

- Ensure that the Borrower complies with all insurance requirements mandated by federal laws and by State and local laws of the jurisdiction where the Property is located

- Comply with all documentation, delivery and servicing requirements of Sections 31.2 through 31.28

The Seller/Servicer is not permitted to exercise its discretion to approve coverage that differs from the following:

- The All-Risk insurance requirements in Section 31.5

- The Business Income/Rental Value Insurance requirements in Section 31.6

- The flood insurance requirements in Section 31.8

- The earthquake insurance requirements in Section 31.9

2. Representations of adequate insurance coverage; Coverage and Gap Reporting

As of the Freddie Mac Funding Date and throughout the term of each SBL Mortgage, the Seller/Servicer must document via the Insurance Compliance Tool (ICT) each of the following (collectively, "Coverage and Gap Reporting")

- The property and liability limit insurance coverage in place for the SBL Mortgage

- Any insurance coverage limit, insured peril or other aspect of insurance coverage for the SBL Mortgage that differs from the Recommended Insurance Standards applicable to the Property

Freddie Mac will accept the Coverage and Gap Reporting entered by the Seller/Servicer into the Insurance Compliance Tool (ICT) as the Seller/Servicer's representation of adequate property and liability insurance coverage for the SBL Mortgage and justification of the adequacy of coverage where coverage gaps are present.

c. Form of coverage (06/30/16)

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.

d. Additional insurance terms (02/22/24)

The following 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. **Specific Insurance Limit**

   A Specific Insurance Limit provides one "per occurrence" (per peril) limit that applies to a single location. Specific Insurance Limits may be provided through an individual policy or through a master policy with scheduled limits for each location.

3. **Blanket Insurance Limit**

   A Blanket Insurance Limit provides one "per occurrence" limit as a shared limit for more than one property or more than one category of coverage, or both. Blanket Insurance Limits may be provided by an individual policy or a blanket policy.

4. **Blanket Insurance Policy**

   A blanket insurance policy provides coverage for multiple properties and/or multiple perils through a single policy with Blanket Insurance Limits.

5. **Master Insurance Policy**

   A master insurance policy provides coverage for multiple properties and/or multiple perils through a single policy with Specific Insurance Limits scheduled for each property covered by the policy.

6. **Coinsurance Clause**

   The Coinsurance Clause requires the Property to be insured for a specific percentage of the Property's Replacement Cost Value (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.

7. **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.

8. **Replacement Cost Value**

   The Replacement Cost Value (RCV) is the estimated cost to replace the Property improvements on the same premises with improvements of comparable material and quality and used for the same purpose.

   The following items should not be included in the estimated RCV:

- Cost to reconstruct the foundation(s). (However, when determining the RCV of improvements for flood insurance, the value 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

Though the Seller/Servicer may use other reliable resources to determine estimated RCV, the most common resources include:

- **Insurance company –** the RCV 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

- **Appraiser –** a qualified commercial real estate appraiser experienced in the market

- **Contractor –** a reputable commercial contractor with experience constructing and/or reconstructing properties in the area similar to the Property

- **Third-party vendor –** a third-party vendor that specializes in RCV calculations or publishes data used for this purpose

9. Actual Cash Value

Actual Cash Value is the cost to repair or replace damaged property with material of like kind and quality, minus physical depreciation at the time of the damage or loss.

10. Total Insurable Value (TIV)

The Total Insurable Value (TIV) equals the sum of the RCV of the building(s), the business income rental value, and the value of the business personal property, if any.

11. Schedule of Values (SOV)

A Schedule of Values (SOV) is a listing of insurable values (all elements of the TIV) provided to an insurance company for all properties for which an insured Borrower requires coverage under a property insurance policy.

31.2 General requirements for Borrower's property damage and general liability insurance (12/14/18)

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.

a. Acceptable forms (06/30/16)

ISO's standard Special Causes of Loss Form (formerly referred to as "All Risk") and Commercial General Liability Form are acceptable forms of property damage and liability insurance, respectively.

b. Insurance term (12/14/17)

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 is in full force and effect on the Origination Date of the Mortgage and coverage remains continuous throughout the term of the Mortgage.

See Section 31.22 for additional information on renewals.

c. Reserve (05/01/14)

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

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

- Collect Reserves 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 Reserve to pay the allocated premium due on the applicable policy or policies, or

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

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

If the Servicer does not maintain a Reserve for insurance premiums, the Seller/Servicer must ensure that the Borrower has made the payments as required in Section 31.2(g).

See Section 39.2 for additional information regarding Reserves and payments.

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.

e. Mortgagee clause and additional insured (12/14/18)

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 clause and a loss payable clause in favor of, and in a form acceptable to, Freddie Mac.

Each general liability policy (including commercial general liability (CGL), umbrella liability and excess liability) must name Freddie Mac as an additional insured. If umbrella or excess liability policies are "Follow Form" to the underlying CGL policy, verification of additional insured status on the umbrella or excess policies is not required.

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 including commercial general liability (CGL), umbrella liability and excess liability) 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

f. Cancellation clause (05/05/17)

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

General liability and umbrella or excess liability insurance policies must provide that the insurer will notify at least the named insured in writing at least 10 days before cancellation of the policy by the insurer for nonpayment of the premium or nonrenewal, and at least 30 days before cancellation by the insurer for any other reason, unless otherwise required by State law. Note that under the terms of the Loan Documents, the Borrower must promptly deliver to the lender a copy of any notices received by the Borrower with respect to the insurance policies.

g. Proof of payment (10/31/12)

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 Reserves for insurance in accordance with Section 31.2(c).

31.3 Blanket or Master Insurance Policies (06/27/19)

Freddie Mac permits Blanket or Master Insurance policies that insure multiple properties, including the Property and other properties that may or may not be encumbered by Mortgages purchased by Freddie Mac, provided that:

- The insurance documentation clearly identifies the complete street address of the Property;
- All properties insured on the blanket policy have common ownership by a single borrower, sponsor or parent company, or are managed by the same property management company on behalf of the Borrower; and
- The policy complies with all other applicable insurance requirements in this chapter.

The Seller/Servicer must, to its satisfaction, determine, support and document in the Mortgage File that any Blanket Insurance Limits provide adequate coverage relevant to the risks associated with the Property covered by the limits.

The Seller/Servicer must obtain and review sufficient information to evaluate the Borrower's Blanket Insurance Limits, including geographic concentrations of insurable value, such as adjacent or nearby properties covered by the same limits, and with respect to any peril applicable to the Property. The Seller/Servicer must collect appropriate documentation such as Schedules of Value, evidence of insurance coverage or insurance policies, portfolio risk modeling results, and other relevant information the Seller/Servicer deems necessary to complete its analysis. Other relevant information may include property addresses, number of buildings and stories, building RCV, business income/rental value, business personal property (if any), whether there are buildings located in a SFHA requiring flood coverage, whether a property is located in an Elevated Seismic Hazard Region as defined in Section 64.2 or Section 64SBL.2, as applicable.

Freddie Mac recognizes that some Borrowers purchase property insurance through large programs that insure entities and properties that do not share a common ownership with the Borrower. 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.

31.4 Acceptable insurers (01/01/13)

Each insurance carrier providing property damage and/or liability insurance, whether admitted or non-admitted, must comply with the minimum rating requirements below based on the carrier's aggregate exposure as follows:

<table>
<tr><th colspan="6">INSURANCE CARRIER RATINGS AND FINANCIAL SIZE CATEGORIES</th></tr>
<tr><th>Aggregate Carrier Exposure</th><th>Minimum A.M. Best Financial Strength Rating</th><th>AND</th><th>Minimum A.M. Best Financial Size Category</th><th>OR</th><th>Minimum Rating from:
Fitch Inc., Standard & Poor's Rating Services, or
Moody's Investors Service Inc.</th></tr>
<tr><td>≤ $5 million</td><td>A-</td><td>AND</td><td>VII</td><td rowspan="3">OR</td><td rowspan="3">• A- by Fitch Inc., or
• A- by Standard & Poors Ratings Services, or
• A3 by Moody's Investors Service Inc.</td></tr>
<tr><td>> $5 million & ≤ $25 million</td><td>A-</td><td>AND</td><td>VIII</td></tr>
<tr><td>> $25 million</td><td>A-</td><td>AND</td><td>IX</td></tr>
</table>

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

<table>
<tr><th colspan="3">Aggregate Carrier Exposure (for each individual carrier)</th></tr>
<tr><th colspan="2">Insurance type</th><th>Aggregate Carrier Exposure</th></tr>
<tr><td rowspan="3">Property damage insurance</td><td>Specific Insurance or policy for one Property</td><td>Required building coverage limits + required Business Income/Rental Value Insurance</td></tr>
<tr><td>Blanket Insurance or master program from one carrier</td><td>Blanket Insurance or master program limit</td></tr>
<tr><td>An individual policy, Blanket Insurance or master program with more than one carrier participating with layered limits</td><td>Total limit provided by the carrier in all layers in which the carrier participates</td></tr>
<tr><td rowspan="3">Liability insurance</td><td>Specific Insurance or policy for one Property</td><td>Total aggregate limits (general liability + excess/umbrella)</td></tr>
<tr><td>Liability insurance for multiple properties, or master program from one carrier</td><td>Total aggregate limits (general liability + excess/umbrella)</td></tr>
<tr><td>An individual policy, liability insurance policy for multiple properties or master program with more than one carrier participating with layered limits</td><td>Total limit provided by the carrier in all layers in which the carrier participates</td></tr>
</table>

31.5 Property damage (All-Risk) insurance (02/22/24)

Property damage insurance is required for all Mortgages to ensure the improvements are protected against loss or damage from fire and other perils covered within the scope of an Insurance Services Office (ISO) Special Causes of Loss or "All Risk" policy form. All-Risk insurance coverage must:

- Be written in an amount not less than 100 percent of the estimated RCV of the 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 be no less than the estimated RCV.

In addition, coverage for roof coverings may be written on an Actual Cash Value basis.

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.

Freddie Mac also 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.)

a. Property damage (All-Risk) deductible (02/22/24)

The maximum deductible per occurrence for property damage (All-Risk) insurance policies providing Specific Insurance Limits is:

RCV	Maximum Deductible
< $10 million	$50,000
≥ $10 million	$100,000

b. Expanded deductible (12/14/18)

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 Limits (other than NFIP, windstorm and earthquake insurance) if all of the conditions below have been met.

Expanded Deductibles	
RCV	**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 has a Risk Rating of six or less
- 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.

c. Blanket All-Risk Insurance Limits (06/27/19)

For policies providing property damage (All-Risk) insurance coverage using Blanket Insurance Limits, the Seller/Servicer must, to its satisfaction, determine, support, and document that the Blanket Insurance Limits, including any sub-limits, are adequate for the risks applicable to the Property. In evaluating whether the Blanket All-Risk Limits provide adequate coverage for concentrations of insurable value, the Seller Servicer must take into consideration the TIV of nearby properties that are covered by the same blanket limit. The Seller Servicer must maintain a copy of its blanket-limit analysis in the associated loan file.

The blanket “All-Risk” limit must be no less than the greater of the following:

- The largest individual TIV covered by the Blanket Insurance Limit, or
- The aggregate TIV of the Property, any adjacent properties sharing a boundary with the Property, any properties separated from the Property by a street, alley, or public space, and any other properties within 100 feet of the Property and covered by the same blanket limit.

d. Deductible for All-Risk Blanket Insurance Limit (04/30/19)

The maximum per occurrence deductibles when All-Risk coverage is provided by a Blanket Insurance Limit is one percent per unit of insurance to a maximum of $250,000.

31.6 Business Income/Rental Value Insurance (07/01/14)

Business Income/Rental Value Insurance is required for all applicable property damage perils within the scope of the “Causes of Loss – Special Form” or “All Risk” policy, including windstorm, flood, earthquake and terrorism, regardless of whether the coverage is provided on an All-Risk or separate policy.

The Business Income/Rental Value Insurance must be sufficient to cover the minimum number of months of effective gross income (EGI) based on underwritten EGI or the most recent year-end financials, and the minimum extended period of indemnity in accordance with the following:

Mortgage unpaid principal balance (UPB)	Minimum number of months EGI	Minimum extended period of indemnity
$50 million or less	12 months	None required
Greater than $50 million	18 months	90 days

When considering Business Income/Rental Value Insurance for Cooperative Properties, the calculation of the EGI required must include routine maintenance fees and special assessments for the Property.

Business Income/Rental Value coverage may be provided on an Actual Loss Sustained (ALS) basis (i.e., coverage pays only for the insured's actual loss of income, up to the overall limit of the policy), provided that any limit associated with the ALS coverage is not less than the equivalent value of the minimum number of months EGI required.

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

31.7 Windstorm insurance (02/22/24)

Windstorm insurance refers to coverage for damages caused by high winds, hail, tornados, and hurricane-force winds ("Named Storm"). If coverage for windstorm and/or windstorm related perils and/or Named Storms is excluded from the primary property insurance policy, separate windstorm coverage must be obtained, either through an endorsement or a separate policy.

a. Wind/hail coverage (04/30/19)

Wind/hail coverage must meet the requirements identified in Sections 31.5 and 31.6, with the exception of deductibles.

b. Wind/hail deductibles (02/22/24)

The maximum per-occurrence deductible when wind/hail coverage is provided by a Specific Insurance Limit is as follows:

- When expressed as a percentage, five percent per unit of insurance
- When expressed as a dollar amount:

TIV of the Property	Maximum deductible
< $10 million	$50,000
≥ $10 million	$100,000

The maximum per-occurrence deductible when wind/hail coverage is provided on a Blanket Insurance Limit basis is as follows:

- When expressed as a percentage, five percent per unit of insurance
- When expressed as a dollar amount, $250,000

c. Named Storm coverage (04/30/19)

For all properties located in Tier 1 Windstorm Risk counties, as defined by the insurer, Named Storm coverage must meet the requirements in Sections 31.5 and 31.6, with the exception of deductibles.

If Named Storm coverage is provided as part of a Blanket Insurance Limit, the Seller/Servicer must determine, to its satisfaction, that the blanket Named Storm limits are adequate for the Property and any concentrations of insurable value associated with other properties covered.

The Blanket Insurance Limit for Named Storm may not be less than the greater of the following:

- The largest individual TIV of properties covered by the Blanket Insurance Limit, or
- 40 percent of the aggregate TIV within any State covered by the Blanket Insurance Limit (e.g., if the Blanket Insurance Limit covers properties in both Florida and Texas, then for Florida, 40 percent of the aggregate TIV of all properties within Tier 1 Windstorm Risk counties in Florida covered by the policy; for Texas, 40 percent of aggregate TIV of all properties in Texas covered by the policy that are located in Tier 1 Windstorm Risk counties in Texas).

d. Named Storm deductibles (02/22/24)

The maximum per-occurrence deductible when Named Storm coverage is provided by a Specific Insurance Limit is as follows:

- When expressed as a percentage, five percent per unit of insurance.
- When expressed as a dollar amount:

TIV of the Property	Maximum deductible
< $10 million	$50,000
≥ $10 million	$100,000

The maximum per-occurrence deductible when Named Storm coverage is provided on a Blanket Insurance Limit basis is as follows:

- When expressed as a percentage, five percent per unit of insurance.
- When expressed as a dollar amount, $250,000.

e. Windstorm insurance through a State Windpool (12/14/18)

If windstorm coverage is only available from a State Windpool, the policy must meet the requirements in 1, 2, or 3 below:

1. If the policy issued by the State Windpool does not contain a Coinsurance Clause, the policy must be written in an amount no less than 100 percent of the estimated RCV 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 in an amount no less than 100 percent of the estimated RCV of the insurable improvements without any deduction for depreciation, and

   - The Agreed Amount must equal the estimated RCV.

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 in an amount no less than 100 percent of the estimated RCV of the insurable improvements without any deduction for depreciation.

   - The RCV estimate must meet the requirements of the Guide.

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

   - The policy must contain a Coinsurance Clause less than or equal to 80 percent.

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

   If the Business Income/Rental Value Insurance required in Section 31.6 is not included in the State Windpool insurance policy, the Borrower must obtain separate Business Income/Rental Value Insurance relevant to Windstorm Coverage.

31.8 Flood insurance (02/16/23)

Flood insurance is required for any building that is part of the Property that is fully or partially located in a Special Flood Hazard Area (SFHA) Zone A or V, as defined by the Federal Emergency Management Agency (FEMA).

Specific coverage requirements are identified below; however, the Seller/Servicer must ensure the coverage meets the minimum mandatory purchase requirements identified in the following Federal flood insurance statutes, as well as any applicable Federal agency rulemaking and publication:

- National Flood Insurance Act of 1968 (1968 Act)

- Biggert-Waters Flood Insurance Reform Act of 2012 (Biggert Waters)
- Flood Disaster Protection Act of 1973 (FDPA)
- Homeowner Flood Insurance Affordability Act of 2014

Freddie Mac may require flood insurance for buildings located outside of a SFHA Zone A or V, if it determines that flood insurance is warranted, such as for buildings with a history of prior flooding or subject to risk of storm surge flooding.

a. Flood zone determination (02/16/23)

Seller/Servicers must determine whether any buildings located at the Property are or will be fully or partially located in a SFHA, using the FEMA Standard Flood Hazard Determination Form (SFHDF). Seller/Servicers must ensure that all structures at the Property will be evaluated when ordering the SFHDF. In addition to the Property address listed in the Collateral Description of the SFHDF, Seller/Servicers must provide to the vendor supplemental information such as the Property's legal description or parcel descriptions. The resulting Flood Zone Determination (FZD) form, and any subsequent FZD forms, must be effective for the life of the related loan and be included in the Mortgage File.

Any Property that has buildings located in a SFHA but is located in a community that does not participate in the National Flood Insurance Program (NFIP), is not eligible for sale to Freddie Mac, regardless of whether private flood insurance is available.

b. Flood coverage requirements (12/15/22)

For each building that is fully or partially located in a SFHA, Freddie Mac requires flood insurance equal to at least the following:

- The RCV of the first two floors of the building above grade, plus
- The RCV of any floors below grade, plus
- 12 months of business income/rental value associated with the building, and
- The insurable value of Borrower-owned contents or business personal property within the building.

The above coverage requirements can be met by obtaining flood insurance from private flood insurers or from insurers providing policies under the NFIP, or any combination thereof. Policies issued by private flood insurers must meet the minimum requirements for Acceptable Insurers identified in Section 31.3. Policies issued by insurers participating in the NFIP, as well as those insurers authorized to participate in the NFIP's Write Your Own program, are acceptable.

Contents or business personal property generally includes equipment and inventory owned by the Borrower which are used in connection with the ownership, management or operation of the Property that do not otherwise constitute fixtures. Seller/Servicers are responsible for having a process in place to obtain inventory and the insurable value of Borrower-owned contents or business personal property within buildings located in SFHAs in order to determine the required coverage. Seller/Servicers must provide documentation of the presence or absence of borrower-owned contents or business personal property within the building in the Mortgage file.

Private flood insurance policies must:

- Be written on a RCV basis without any deduction for depreciation,
- Provide coverage and terms at least as broad as or better than the coverage and terms provided under a standard flood insurance policy issued under the NFIP private flood insurance policies, 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 be no less than the estimated RCV.

When an NFIP policy is used, the Seller/Servicer must consider the extent of recovery allowed under the NFIP policy for the type of building being insured in order to avoid creating a situation in which a Borrower would pay for more coverage than a NFIP policy would pay out in the event of a loss.

Freddie Mac does not require flood insurance for low-value, non-residential structures located in a SFHA that meet the exemption provisions of HFIAA. Such structures include maintenance buildings, storage sheds, pool houses, carports, laundry buildings, and gatehouses.

c. Flood coverage provided by Blanket Insurance Limit (12/14/18)

Blanket Insurance Limits providing private flood insurance for multiple properties are acceptable. The Seller/Servicer must evaluate concentrations of insurable value associated with properties covered by a Blanket Insurance Limit for flood resulting from adjacent properties and properties within the same MSA of the Property. The Blanket Insurance Limit providing flood coverage must be no less than the greater of the following:

- The largest individual amount of flood insurance that would be required under the terms of the Guide for any property with buildings located in an SFHA within the Property's MSA covered by the Blanket Insurance Limit for flood coverage, or
- 40 percent of the aggregate amount of flood insurance that would be required under the terms of the Guide for properties with buildings located in an SFHA within the Property's MSA that are covered by the Blanket Insurance Limit for flood coverage.

The Seller/Servicer must obtain and review sufficient information to evaluate the Borrower's portfolio of flood risk covered by the Blanket Insurance flood limits. In order to evaluate the Blanket Insurance Limit for flood coverage required above, the Seller/Servicer should consider the following information from the Borrower related to buildings within the Property's MSA that are located in SFHAs:

- Property location (address)
- Number of stories

- Building type (Residential, Other Residential, Non-Residential)
- Building RCV
- Building Business Income/Rental Value (BI/RV)
- Borrower-owned business personal property value
- NFIP limits in place
- Other coverage limits (excess flood) in place

The Seller Servicer may also need the following information to estimate values required for evaluation of the Blanket Insurance Limit for flood coverage:

- Total building RCV for each property
- Total BI/RV for each property
- Total number of buildings at each property
- Number of buildings at each property that are located in a SFHA

d. Maximum deductible for flood insurance (12/14/18)

The following are maximum deductibles allowed for flood insurance policies:

For first-layer building coverage:

- $50,000 per building for a Property with 10 buildings or less located in SFHAs
- $500,000 per occurrence for a Property with more than 10 buildings located in SFHAs

For Business Income/Rental Value coverage:

- 15 day waiting period when expressed as a time-elements deductible
- $100,000 per occurrence when expressed as a monetary deductible

When NFIP policies are used as part of the coverage, the maximum deductible available under the NFIP for the type of building being insured is acceptable.

e. 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

f. Evaluating the need for flood insurance coverage (12/15/22)

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, flood insurance must remain in force.

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, Freddie Mac requires the Property to be covered by the required amount of flood insurance no later than 120 days after the effective date of the FEMA NFIP map change. Flood insurance may be obtained from NFIP and/or a private insurance company meeting Freddie Mac's requirements.

3. **Documentation required for coverage discontinuation**

Freddie Mac will not require flood insurance for buildings at a Property that are no longer in an SFHA if the Servicer receives any one of the following:

- Letter of Map Amendment (LOMA) from FEMA excluding the insurable improvements or the entire Property from the SFHA, or

- Letter of Map Revision (LOMR) from FEMA removing the community's SFHA designation, or

- 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 by emailing MF_Insurance_Compliance@FreddieMac.com noting the property name, loan number, and the changes. The Servicer must also complete and submit a Summary Update record in Insurance Compliance Tool (ICT) with documentation including a copy of the LODR, LOMA, or LOMR and any other applicable documentation.

31.9 Earthquake insurance (12/15/22)

a. Earthquake terms used in this chapter (12/15/22)

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

- **Seismic Risk Assessment (SRA)**

  The Seismic Risk Assessment (SRA) uses modeling techniques to assess the risk to a Property from seismic events. It takes into consideration proximity to known faults, construction type and quality, building configuration, soil condition and other factors. See Chapter 64 or Chapter 64SBL, as applicable, for Freddie Mac's requirements for an SRA.

- **Scenario Expected Loss-475 (SEL-475)**

The SEL-475 is defined as the SEL corresponding to the mean level loss resulting from the damage experienced due to a 475-year return period earthquake. For additional details regarding the determination of the SEL-475, see Section 64.8 or Section 64SBL.8, as applicable.

For the purposes of this chapter, the term SEL-475 is used instead of the older term Probable Maximum Loss (PML).

b. Earthquake insurance requirements (12/15/22)

In accordance with Chapter 64 or Chapter 64SBL, as applicable, Freddie Mac requires an SRA at the Borrower's expense for a Property located in an Elevated Seismic Hazard Region. For Properties where multiple building construction types are present (for example, Properties that have buildings with and without tuck-under parking), a SEL-475 estimate is required for each building construction type. If any single building has a SEL-475 greater than 20 percent, then earthquake insurance or seismic retrofit is required for that building.

1. Required earthquake coverage

Earthquake insurance is required per the table below:

SEL-475	Building Stability Concern*	
	No	Yes
≤ 20%	Insurance not required	Ineligible for purchase until seismic retrofit completed unless otherwise approved by Freddie Mac
> 20% & ≤ 40%	Insurance required, and seismic retrofit optional; if the retrofit results in a SEL-475 ≤ 20% at completion, then insurance will no longer be required	Ineligible for purchase until seismic retrofit completed unless otherwise approved by Freddie Mac
> 40%	The affected building(s) must have a seismic retrofit prior to the Mortgage being submitted to Freddie Mac for consideration	

***See Section 64.9 or Section 64SBL.9, as applicable, for Freddie Mac's requirements for the evaluation of building stability.**

For a Property or buildings 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 or buildings using the actual SEL-475 and the projected loss of the 20 percent SEL-475.

Business Income/Rental Value Insurance and Ordinance and Law coverage is required if the earthquake insurance does not provide that coverage for earthquake damage.

2. Maximum deductible

The maximum deductible for earthquake insurance is as follows:

Borrower Equity	Maximum Deductible (a reserve account is 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

3. Seismic risk changes subsequent to Freddie Mac's purchase of the Mortgage

The requirements of this section apply to Mortgages that have been purchased by Freddie Mac.

a. Updates to the National Seismic Hazard Maps

If the United States Geological Survey (USGS) updates the National Seismic Hazard Maps data on its website such that a Property previously not located in an Elevated Seismic Hazard Region subsequently has a PGA (as calculated via the USGS website) equal to or greater than 0.15g, the Seller/Servicer must, within 60 days of the USGS update

- Obtain an updated PGA calculation in accordance with Section 64.2(b) or Section 64SBL.2(b), as applicable
- Obtain an SRA in accordance with the requirements of Chapter 64 or Chapter 64SBL, as applicable
- Submit the seismic risk documentation described in Section 55.2 or Section 55SBL.2, as applicable, to *Multifamily Asset Management, Asset Performance and Compliance*

The Servicer must retain all such documentation in the Mortgage File. In addition, the engineer or firm completing the SRA must send a resume or statement of qualification with the completed SRA. Freddie Mac *Multifamily Asset Management, Asset Performance and Compliance* will determine if and/or how much earthquake insurance is required.

If the USGS updates the National Seismic Hazard Maps data on its website such that a Property previously located in an Elevated Seismic Hazard Region now has a PGA less than 0.15g, and earthquake coverage was required based on the results of the previous SRA, the Seller/Servicer may request Freddie Mac approval to discontinue or reduce that earthquake coverage.

The Seller/Servicer must document the updated PGA calculation described in Section 64.2(b) or Section 64SBL.2(b), as applicable, and submit the documentation to

Freddie Mac via the Property Reporting System (PRS) in order to request permission from Freddie Mac to discontinue or reduce earthquake insurance.

Closure of the Loan Item Tracking entry for the PGA calculation documentation will constitute Freddie Mac's notification to the Seller/Servicer that earthquake coverage may be discontinued or reduced.

The Servicer must retain all such evidence in the Mortgage File.

b. After a Property undergoes seismic retrofit

If a Property undergoes a seismic retrofit that results in a SEL-475 of less than or equal to 20 percent and addresses building stability concerns, if applicable, the Seller/Servicer may request Freddie Mac approval to discontinue or reduce the earthquake coverage.

The Seller/Servicer must:

- Obtain an SRA in accordance with the requirements of Chapter 64 or Chapter 64SBL, as applicable
- Upload the SRA documentation for the related Loan Item Tracking (LIT) entry via the Property Reporting System (PRS) and select "Send to Freddie Mac"
- Freddie Mac will review the SRA and close the Loan Item Tracking entry if the SRA confirms that the SEL -475 is less than or equal to 20 percent and there are no building stability concerns, if applicable
- Closure of the Loan Item Tracking entry for the SRA will constitute Freddie Mac's notification to the Seller/Servicer that earthquake coverage may be discontinued or reduced.

The Servicer must retain all such documentation in the Mortgage File.

31.10 Boiler and Machinery insurance (02/22/24)

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.

Coverage for Boiler and Machinery insurance must be in place for the buildings housing the central HVAC system, including the RCV of the central HVAC system and must meet the requirements in Sections 31.5 and 31.6. 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 Limits:

RCV of the Property	Maximum per occurrence deductible
< $10 million	$50,000
≥ $10 million	$100,000

- For a policy providing Blanket Insurance Limits, one percent of the aggregate RCV of the covered properties to a maximum deductible of $250,000.

31.11 Builder's Risk insurance (02/22/24)

The term Builder's Risk insurance, when used in this chapter, means a policy that insures against loss to buildings, materials, equipment and fixtures during construction, rehabilitation, addition, significant alteration or repair. Freddie Mac requires such construction projects to be fully insured in accordance with the requirements of this Chapter 31. If insurance for such projects is not provided by the Borrower's primary property insurance policies, a separate Builder's Risk policy is required.

Coverage must be for at least 100 percent of the sum of the project contract or contracts and all materials to complete the work, as well as applicable soft costs.

Once construction is complete, Builder's Risk coverage may be discontinued.

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

- For a policy providing Specific Insurance Limits:

Total Project Value	Maximum per occurrence deductible
< $10 million	$50,000
≥ $10 million	$100,000

- For a policy providing Blanket Insurance Limits, one percent of the aggregate RCV of the covered properties, to a maximum deductible of $250,000.

31.12 Ordinance and Law insurance (07/01/14)

Ordinance and Law coverage is not required for any property that is legally conforming under current building, zoning or land use laws.

Ordinance and Law coverage is required for any property that is non-conforming under current building, zoning or land use laws or ordinances unless the municipality or other governing authority will permit the Property to be rebuilt 100 percent to the specifications of the Property that existed at the time of the loss. The Seller/Servicer must provide evidence of 100 percent rebuild allowance to Freddie Mac to demonstrate the coverage is not required.

If the zoning law rebuild allowance is restricted to less than 12 months under which the reconstruction must be under permit or construction, then Ordinance and Law coverage is required.

If required, Ordinance and Law coverage must include the following:

a. **Coverage "A" – Loss to the undamaged portion of the Property**: Coverage no less than the estimated Replacement Cost Value (RCV) 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 for Coverage "A" = (RCV– (RCV X damage threshold percentage))

   For example:

   - If the RCV 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 be no less than the estimated RCV of the Property, which is $20 million in this example.

b. **Coverage "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. Coverage "B" must equal no less than 10 percent of the estimated RCV of the Property.

c. **Coverage "C" – Construction cost**: Increased cost of construction to allow the Borrower to rebuild the Property to meet all applicable zoning laws. Coverage "C" must equal no less than 10 percent of the estimated RCV of the Property.

Ordinance and Law Coverage must include an Increased Period of Restoration endorsement that extends business income and extra expense coverage to provide additional time to restore operations when delayed due to enforcement of building or zoning laws.

31.13 Terrorism insurance (06/27/19)

Terrorism insurance is required for all Mortgages, including those being refinanced, to ensure the improvements are protected against loss or damage due to acts of terrorism. If terrorism coverage is excluded from the primary property insurance policy, separate terrorism coverage must be obtained either through an endorsement or a separate policy.

a. Terrorism coverage must meet all of the following requirements:

   - Property damage insurance in an amount and with maximum deductibles in accordance with Section 31.4 and 31.5,

- Business Income/Rental Value Insurance in accordance with Section 31.6, and

- Liability insurance in accordance with Section 31.16 (not including Professional Liability Insurance).

b. Blanket Terrorism Insurance

For policies providing terrorism insurance using Blanket Insurance Limits, the Seller/Servicer must, to its satisfaction, determine, support, and document that the Blanket Insurance Limits for terrorism coverage are adequate for the applicable risks. In evaluating whether the terrorism limits provide adequate coverage for concentrations of insurable value, the Seller Servicer must take into consideration the TIV of nearby properties that are covered by the same blanket limit. The Seller Servicer must maintain a copy of its blanket-limit analysis in the associated loan file.

The blanket terrorism limit must be no less than the greater of the following:

- The largest individual TIV covered by the Blanket Insurance Limit, or

- The aggregate TIV of the Property, any adjacent properties sharing a boundary with the Property, any properties separated from the Property by a street, alley, or public space, and any other properties within 100 feet of the Property and covered by the same blanket limit.

31.14 Localized perils insurance (02/22/24)

A Property located in an area prone to localized perils, such as sinkhole, mine subsidence, volcanic eruption, and avalanche, must have one or more insurance policies in place to cover 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, as applicable,

- The *Applicable Freddie Mac Multifamily Regional Office,*

- The *Multifamily TAH Underwriter,* or

- Freddie Mac *Multifamily Asset Management, Borrower Transactions*.

Coverage must meet the requirements in Sections 31.5 and 31.6 for the buildings affected by the localized peril.

The maximum deductible for localized perils insurance is:

- For a policy providing Specific Insurance Limits:

RCV of the Property	Maximum Deductible

< $10 million	$50,000
≥ $10 million	$100,000

- For a policy providing Blanket Insurance Limits, one percent of the aggregate RCV of the covered properties, to a maximum deductible of $250,000.

31.15 Sewer and drain insurance (01/01/13)

If 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.

31.16 General liability insurance (12/14/23)

Standard Commercial General Liability (CGL) insurance on an “occurrence-based” policy form insuring against liability resulting from bodily injury, property damage, personal injury, advertising injury and contractual liability is required. The policy 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)
- Home Sites and any Borrower-owned structures at an MHC Property

If the Borrower changes from a “claims made” policy form to an “occurrence-based” policy form, a Supplemental Extended Reporting Period (also known as a Tail) endorsement must be obtained to prevent a gap in coverage.

a. Required CGL and umbrella or excess coverage (12/15/20)

1. Borrower must maintain primary CGL coverage for

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

   If the CGL policy covers multiple locations, Freddie Mac requires that the general aggregate limits apply per location with no aggregate cap.

2. In addition, the Borrower must maintain, at a minimum, the following umbrella or excess liability coverage:

Aggregate number of residential units covered	Minimum umbrella or excess liability limits
Up to 250	$1 million
251 to 500	$2 million
501 to 1,000	$3 million
1,001 to 2,000	$5 million
2,001 to 5,000	$10 million
5,001 to 10,000	$15 million
10,001 to 20,000	$20 million
20,001 to 35,000	$25 million
More than 35,000	$50 million

If the CGL layer includes an aggregate limit cap, then additional umbrella/excess liability limits above the minimum amount required must be contemplated to determine whether the liability coverage adequately addresses the casualty risk for the insured portfolio.

The minimum coverage limits in this section are to be evaluated based upon the aggregate number of residential units covered by the umbrella and/or excess liability policy, and may be satisfied with any combination of primary CGL, umbrella and/or excess.

b. Maximum deductible and Self-Insured Retention (SIR) for liability insurance (12/15/20)

The following maximum deductible or SIR, or combined deductible and SIR, apply to all forms of general liability insurance on the Property, including CGL, umbrella and/or excess policies:

- $35,000 for policies with individual or combined mortgage balances less than or equal to $25 million
- $50,000 for policies with individual or combined mortgage balances greater than $25 million
- $250,000 for Blanket Insurance Limits
- $10,000 for umbrella/excess liability policies

c. Vehicle liability insurance (12/14/23)

The Borrower must maintain commercial auto liability insurance for vehicles owned, hired, or used by anyone for business at the Property. The commercial auto liability insurance coverage must be at least $1 million per accident.

31.17 Professional liability insurance requirements for certain Seniors Housing Mortgages (12/15/20)

a. Professional liability (PL) insurance requirements (12/15/20)

If the Property has assisted living, Alzheimer's care, and/or skilled nursing units, the Borrower must obtain professional liability insurance.

The professional liability policy may be written on a "claims made" policy form or an "occurrence-based" policy form. If the Borrower changes from a "claims made" policy form to an "occurrence-based" policy form, a Supplemental Extended Reporting Period (also known as a Tail) endorsement must be obtained to prevent a gap in coverage.

1. Borrower must maintain primary professional liability coverage of:

   - $1 million per occurrence
   - $2 million in the general aggregate

   If the professional liability policy covers multiple locations, Freddie Mac requires that the aggregate limits apply per location with no aggregate cap.

2. In addition, the Borrower must maintain the following minimum umbrella or excess professional liability coverage:

Total number of licensed beds covered by the policy	Minimum Umbrella/Excess Coverage
Less than or equal to 100	$1 million
101 to 500	$5 million
501 to 1,000	$10 million
Greater than 1,000	$25 million

   If the primary PL layer includes an aggregate limit cap, then additional umbrella/excess liability limits above the minimum amount required must be contemplated to determine whether the liability coverage adequately addresses the casualty risk for the insured portfolio.

   The minimum coverage limits in this section may be satisfied with any combination of primary PL, umbrella and/or excess. If CGL and PL insurance coverages are combined, the required umbrella and/or excess liability limit is the higher of the two requirements.

b. Additional insured (01/01/13)

Freddie Mac may not be named as an additional insured on professional liability insurance policies.

c. Deductibles and self-insured retention (SIR) (12/15/20)

Freddie Mac allows the following maximum deductible or SIR, or combined deductible and SIR for Professional Liability:

- $100,000 for policies that insure 500 or fewer licensed beds
- $250,000 for policies that insure more than 500 licensed beds

31.18 Cooperative (Co-op) Requirements (01/01/13)

a. Fidelity bond/crime insurance coverage (01/01/13)

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.

b. Co-op directors' and officers' liability insurance (01/01/13)

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

31.19 Insurance records for origination and Servicing (12/14/23)

The Seller/Servicer must evaluate the Borrower's property and liability insurance coverage at loan origination and at each policy renewal throughout the term of the Mortgage to determine compliance with the Guide. Seller/Servicers and their vendors must use the Insurance Compliance Tool (ICT) to document their assessment of the Borrower's insurance compliance and any recommended waiver requests.

a. Documentation of Borrower insurance compliance at loan origination (02/17/22)

Seller/Servicers must complete the Form 1133, *Certification of Borrower Insurance Compliance*, to document the insurance coverage that is or will be in place at loan closing. If any element of the Borrower's insurance coverage is not in compliance with the Guide and the Seller/Servicer recommends a waiver, the Seller/Servicer must indicate the noncompliance on the Form 1133 and submit a “New Origination Waiver Request” via the ICT for review and approval.

The Form 1133 and any waiver requests must be submitted via the ICT as follows:

- Form 1133 “Underwriting record”. Seller/Servicers must submit the Form 1133 “Underwriting record” with the Full Underwriting Package. This version is a draft of the insurance compliance record that Seller/Servicers and their vendors may update throughout the underwriting process.

- New Origination Waiver Requests. Seller/Servicer must submit any recommended waiver requests with the Full Underwriting Package. All waiver requests must be reviewed and processed final prior to rate lock for Standard Delivery loans and prior to final Acceptance Letter or Modification Letter, as applicable, for Early Rate-Lock loans.

- Form 1133 “Delivery record”. Seller/Servicers must submit the Form 1133 “Delivery record” when the final insurance compliance review is complete, but no later than the Origination Date. This version is the final Seller/Servicer record of insurance compliance.

The Form 1133 and waiver records must include Evidence of Insurance and supporting documentation, as appropriate, uploaded via the ICT. When the Form 1133 “Delivery record” is processed final by Freddie Mac, a PDF image of the form, along with any waiver requests, attached Evidence of Insurance, supporting documents, and Public Notes is automatically transferred to the Freddie Mac loan file in DMS.

b. Post-purchase reporting of Borrower insurance compliance (12/14/23)

For all Mortgages serviced by Seller/Servicers on behalf of Freddie Mac, Seller/Servicers must evaluate the Borrower’s insurance coverage as policies renew and provide updates to insurance records in ICT as set forth below.

- Update Summary Function. The Seller/Servicer must complete the Update Summary form to identify renewed or changed insurance coverage details, attach updated Evidence of Insurance and other supporting documentation, and submit the “Update Summary.” Once the update has been submitted, a PDF image of the form, along with any attached Evidence of Insurance, supporting documents, and Public Notes is automatically transferred to the Freddie Mac loan file in DMS.

- Renewal Waivers. If any element of the Borrower’s insurance coverage is not in compliance with the Guide and the Seller/Servicer recommends a waiver, the Seller/Servicer must submit a Renewal Waiver request in ICT for review and approval.

For Mortgages that have been securitized, Seller/Servicers are to evaluate coverage as policies renew and follow the processes established by the Master Servicer for updating coverage information and recommending waivers. Seller/Servicers are to use the ICT for processing updated records for loans for which Freddie Mac is Master Servicer.

31.20 Evidence of insurance (12/15/22)

The Seller/Servicer must obtain temporary or permanent evidence of Borrower's required property and liability insurance for the closing of new loans and for each renewal. This is applicable to all required insurance policies associated with the Property. After Freddie Mac loan purchase and after each insurance renewal, the Seller/Servicer must require the Borrower to provide copies of insurance policies in accordance with the Loan Agreement. The Seller/Servicer must maintain copies of all required evidence of insurance in its loan file.

a. Temporary evidence of insurance (12/15/22)

The following are acceptable forms of temporary evidence of property insurance:

- ACORD 28, Evidence of Commercial Property Insurance (most recent version)
- ACORD 27, Evidence of Property Insurance (most recent version)
- Mortgage Bankers Association (MBA) Evidence of Insurance – Commercial Property Form
- ACORD 75, Insurance Binder
- Declaration pages from Property insurance policy
- Property insurance policies, including all endorsements and exclusions
- Other equivalent documentation issued by an insurance company or agent/broker that does not use ACORD forms (such as a certificate of insurance or evidence of insurance) that is deemed acceptable by the lender
- For NFIP flood insurance, NFIP policy declaration page or completed and executed NFIP Flood Insurance Application plus a copy of the paid receipt for the Borrower's premium payment
- For private flood insurance, policy declaration page, copy of flood insurance policy including all endorsements and exclusions, copy of policy binder, or copy of quote of flood insurance that will be in place

The following are acceptable forms of temporary evidence of liability insurance:

- ACORD 25, Certificate of Liability Insurance (most recent version)
- ACORD 75, Insurance Binder
- Liability insurance policies, including all endorsements and exclusions
- Other equivalent documentation issued by an insurance company or agent/broker that does not use ACORD forms (such as a certificate of insurance or evidence of insurance) that is deemed acceptable by the lender

b. Permanent evidence of insurance (12/15/22)

The following are acceptable forms of permanent evidence of property and liability insurance:

- Copy of the insurance policy(ies), including all endorsements and exclusions
- For insurance programs using layered insurance policies, copy of the primary insurance policy(ies), including all endorsements and exclusions
- Mortgage Bankers Association (MBA) Evidence of Insurance – Commercial Property Form
- For NFIP flood insurance, NFIP policy declaration page
- For private flood insurance, copy of the flood insurance policy(ies)

31.21 General requirements applicable to all property and liability insurance documentation (12/17/19)

The Seller/Servicer must ensure that all of the following elements are included in the evidence of insurance documentation:

- Borrower, Borrower Principal, or affiliated management company as Named Insured
- Complete Property address
- Mortgagee and Additional Insured endorsements
- Policy effective dates evidencing current coverage
- Policy notice of cancellation provisions
- Coverage limits, sublimits, and deductibles
- Information clearly stating whether terrorism coverage is included
- If flood insurance is required, information indicating limits and deductibles specifically applicable to buildings located in Special Flood Hazard Areas

31.22 Verification of required and continuing property and liability insurance coverage (12/17/19)

a. Required coverage (04/30/19)

The Servicer must ensure that all insurance coverage 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 RCV 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, Borrower Transactions* and explain that the insurance is no longer required.

b. Continuing coverage (12/17/19)

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 31.20(a) and 31.20(b), as applicable

31.23 Reserved (12/14/18)

31.24 Ensuring continuous insurance coverage (04/30/19)

a. General requirements for ensuring continuous insurance coverage (01/01/13)

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 31.3, based on the total unpaid principal balance (UPB) of the Mortgages insured under the policy by the Seller/Servicer

b. Forced placed insurance (04/30/19)

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, Borrower Transactions*.

1. If one or more of the following conditions exists, the Seller/Servicer must force place insurance:
    - 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 via the ICT. The Servicer must provide justification for the recommendation. *Multifamily Asset Management, Borrower Transactions* 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 RCV 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 via the ICT. The Servicer must provide justification for the recommendation. Freddie Mac *Multifamily Asset Management, Borrower Transactions* 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.

c. Notice to Freddie Mac of forced placed insurance (04/30/19)

If coverage is forced placed as described in 31.24(b), the Servicer must immediately send written notification to Freddie Mac *Multifamily Asset Management, Borrower Transactions* 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.

d. Payment for forced placed insurance (04/30/19)

The Servicer must adjust the Borrower's insurance Reserve payments for the forced placed insurance if the Borrower is required to make periodic Reserve deposits for insurance premiums or bill the Borrower to recover the advance (if the Servicer does not maintain an insurance Reserve for the Borrower). If an insurance Reserve account is not currently required, Freddie Mac may require the Servicer to set up a Reserve. 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, Asset Performance and Compliance*. 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.

31.25 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

31.26 Reserved (06/30/16)

31.27 Captive insurance companies (04/30/19)

For information regarding the use of captive insurance companies, contact the following:

- Prior to the Origination Date: the *Applicable Regional Office* or the *Multifamily TAH Underwriter*, as applicable
- After the Freddie Mac Funding Date: Freddie Mac *Multifamily Asset Management, Borrower Transactions*

31.28 Manufactured Housing Communities (07/01/14)

All MHC Properties must meet the requirements of this Chapter 31.

Generally, any improvements owned by the Borrower must be insured against loss or damage from relevant perils including fire, wind, hail, flood, and other related perils within the scope of a "Special Causes of Loss" or "All Risk" policy, in an amount not less than the RCV of the improvements, per Section 31.4. In addition, the Borrower must carry business income/rental value insurance for all relevant perils in an amount not less than the effective gross income attributable to the Property per Section 31.6.

Properties located partially or fully in a Federal Emergency Management Agency (FEMA) Special Flood Hazard Area (SFHA) must meet the insurance requirements in Section 31.8, especially with regard to full business income/rental value relevant to flood losses.

The Borrower must carry Commercial General Liability (CGL) insurance against legal liability resulting from personal and bodily injury, property damage, and contractual liability, per Section 31.16.