



# Bulletin

**NUMBER: M2016-11**

**TO:** Freddie Mac Multifamily Sellers and Servicers

December 29, 2016

## **SUBJECTS**

With this Bulletin for the Multifamily Seller/Servicer Guide (Guide), Freddie Mac is making the following changes:

- Revising our requirements for flood insurance to
  - Officially cite the Federal Flood Insurance Statutes as part of our Guide to foster consistency related to mandatory purchase requirements
  - Add coverage requirements for Borrower contents and personal property located within buildings in Special Flood Hazard Areas (SFHAs) requiring coverage
  - Allow exemption for low-value structures meeting the definition of detached structures under the Federal Flood Insurance Statutes
  - Adjust the maximum deductible allowed for individual and blanket flood policies to reflect current market conditions
- Updating a provision requiring compliance with seismic insurance requirements for SBL Properties

### Effective dates

These changes to insurance requirements are effective with underwriting packages submitted on, or after, January 1, 2017, as well as for insurance renewals on or after January 1, 2017 for loans already in process or purchased.

### Conclusion

More details on these changes are provided on the pages that follow. Guide text for the changes announced in this Bulletin is highlighted in green on AllRegs. If you have any questions about this Bulletin, please call your Freddie Mac representative.

Sincerely,

Deborah Jenkins  
Senior Vice President  
Multifamily Underwriting and Credit

Michael Lipson  
Senior Vice President  
Multifamily Asset Management and Operations

## Flood Insurance

Many of our Seller/Service providers are regulated by Federal financial regulatory agencies and must comply with the Federal Flood Insurance Statutes, which require flood insurance for buildings located in Special Flood Hazard Areas (SFHAs) in amounts at least equal to the unpaid principal balance (UPB) of the Mortgage or the maximum coverage available under the National Flood Insurance Program (NFIP), whichever is less. Such coverage is to include insurable value of buildings as well as insurable value of borrower-owned contents and business personal property.

We are revising the Guide to explicitly require that all Seller/Service providers meet the minimum requirements of the Federal flood insurance statutes, to include provisions for Borrower contents and business personal property, and to exempt certain low-value, detached structures (such as sheds and carports) from the mandatory flood insurance coverage requirements.

These changes require regulated and non-regulated Seller/Service providers to follow the same approach to flood coverage requirements, which will help reduce issues that arise when a Mortgage is transferred into a Securitization and the Borrower must update flood insurance on the Property.

We are also updating Freddie Mac's maximum deductible allowance to reflect current market conditions, and to state that when NFIP policies are used to provide part of the flood insurance coverage, the maximum deductible available under the NFIP is acceptable.

Complete details on these changes are found in Sections 31.8, 31.8(a), 31.8(b), 31.8(c), and 31.8(e). We have also moved the requirements for Blanket Insurance policies providing flood insurance coverage from Section 31.5(a) to 31.8(c).

## Seismic Insurance for SBL Properties

After careful consideration, Freddie Mac is reinstating provisions in Chapter 31 that were previously contained in the SBL Addendum. Effective for insurance renewals and underwriting checklist submissions on or after January 1, 2017, the SBL Seller/Service provider must

- Comply with the stated earthquake insurance requirements in Section 31.9
- Comply with all documentation, delivery and servicing requirements of Sections 31.2 through 31.28

This change will align the provisions in the Guide with current business practices. Previously, the Seller/Service provider could approve earthquake insurance coverage for an SBL Property that differed from the Recommend Insurance Standards provided that the Seller/Service provider ensured that the insurance coverage was adequate.

This change can be found in Section 31.1(b).