

# Project Insurance Policy

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## Overview

This policy outlines the requirements for the most common types of project insurance: fidelity, liability, property, and flood. InterFirst Mortgage Company must verify the project and unit are covered by the types and amounts of insurance required by Fannie Mae (FNMA) and Freddie Mac (FHLMC).

**NOTE:** The project review type (Limited/Streamlined, Full, etc.) determines which types of insurance are required. If unsure of which types of insurance the project requires, refer to the [Project Review Types and the Insurance Required](#) tables at the end of this policy.

## Fidelity Insurance

Fannie Mae requires fidelity insurance for condo projects subject to a Full Review unless one of the below applies:

- Condo projects consisting of 20 units or less
- Condo projects that would need fidelity/crime insurance coverage of \$5,000 or less.

Freddie Mac requires fidelity insurance for condo projects subject to a Full Review, unless the condo project contains 20 units or less. Refer to the Project Insurance Charts for a breakdown of the types of insurance

The policy must specifically state “Fidelity” insurance. If it states “D&O” or “Employee Dishonesty”, the insurance agent must provide further clarification that it is actually fidelity insurance. The homeowners’ association (HOA) must have blanket fidelity insurance coverage for anyone who either handles or is responsible for funds that the HOA holds or administers, whether or not that individual receives compensation for services. The insurance policy should name the HOA as the insured and the premiums should be paid as a common expense by the HOA. A management agent who handles funds for the HOA should be covered by a separate fidelity insurance policy; it must provide the same coverage required of the HOA.

## Amount of Coverage

The Fidelity insurance policy must cover the maximum funds that are in the custody of the HOA or its management agent at any time while the policy is in force. It must equal at least the sum of three months of assessments on all units in the project. A full condo questionnaire or HOA budget may be required to determine a sufficient amount for three months of assessments.

## Project Liability Insurance

FNMA/FHLMC requires liability insurance for condo projects that require full review. The HOA must maintain a commercial general liability insurance policy for the entire project, including all common areas and elements, public ways, and any other areas that are under its supervision. The insurance policy must also cover commercial spaces that are owned by the HOA, even if they are leased to others. The insurance policy must provide coverage for bodily injury and property damage that result from the operation, maintenance, or use of the project’s common areas and elements.

## Amount of Coverage

The amount of coverage for the project liability insurance policy must be at least \$1 million for bodily injury and property damage for any single occurrence. Higher amounts of coverage may be required if similar amounts are usually required by mortgage investors in other projects in the area. If the policy does not include “severability of interest” in its terms, Fannie Mae and Freddie MAC require a specific endorsement to preclude the insurer’s denial of a unit owner’s claim because of negligent acts of the HOA or of other unit owners.

## Project Property Insurance

At the minimum, the project property insurance policy must protect against fire and other hazards that are normally covered by the standard extended coverage endorsement, and all other perils customarily covered for similar types of projects, including those covered by the standard “all risk” or “special form” endorsement. If the policy does not include an “all risk” or “special form” endorsement, Fannie Mae will accept a policy that includes the “broad form” covered causes of loss.

**NOTE:** Fannie Mae does not accept property insurance policies that limit or exclude from coverage (in whole or in part) windstorm, hurricane, hail damage or any other perils that are normally included under an extended coverage endorsement.

## Amount of Coverage

The project property insurance policy must cover 100% of the insurable replacement cost of the project improvements, including the individual units in the condo project.

A policy that includes either of the following endorsements is acceptable:

- A Guaranteed Replacement Cost Endorsement (under which the insurer agrees to replace the insurable property regardless of the cost) and, if the policy includes a coinsurance clause, an Agreed Amount Endorsement (which waives the requirement for coinsurance)
- A Replacement Cost Endorsement (under which the insurer agrees to pay up to 100% of the property’s insurable replacement cost, but no more) and, if the policy includes a coinsurance clause, an Agreed Amount Endorsement (which waives the requirement for coinsurance)

IMC must review the entire condo project insurance policy to ensure the HOA maintains a master or blanket policy and pays the premiums as a common expense.

## “Single Entity” Policy

A “Single Entity” policy must cover all of the general and limited common elements that are normally included in coverage. These include fixtures, building service equipment, and common personal property and supplies belonging to the HOA. The policy must also cover fixtures, equipment, replacement of improvements and betterments that have been made inside the individual unit being financed. The amount of coverage must be sufficient to restore the condo unit to its condition prior to a loss claim event. If the interior improvements in the unit are not included under the terms of this policy type, the borrower is required to have an **HO-6** policy with coverage, as determined by the insurer, which is sufficient to repair the condo unit to its condition prior to a loss claim event.

## “All-In” Policy

The “All-In” policy (sometimes known as an “all-inclusive” policy) must cover all of the general and limited common elements that are normally included in coverage. These include fixtures, building service equipment, and common personal property and supplies belonging to the HOA. The policy must also cover fixtures, equipment, and replacement of improvements and betterments that have been made inside the individual unit being financed. If the interior improvements in the unit are not included under the terms of this policy type, the borrower is required to have an **HO-6** policy with coverage, as determined by the insurer, which is sufficient to repair the condo unit to its condition prior to a loss claim event.

## “Bare Walls” Policy

The “Bare Walls” policy typically does not provide coverage for the unit interior, which includes fixtures, equipment, and replacement of interior improvements and betterments. As a result, the borrower must obtain an individual **HO-6** policy that provides enough coverage to repair the condo unit to its condition prior to a loss claim event, as determined by the insurer.

## Maximum Deductible

For hazard insurance policies covering condo projects, the maximum deductible must be no greater than 5% of the face amount of the policy. For blanket insurance policies that cover both the individual units and the common elements, the maximum deductible related to the individual unit should be no greater than 5% of the replacement cost of the unit.

## Special Endorsements

The special endorsement requirements for a condo project include:

- An Inflation Guard Endorsement (when it can be obtained)
- A Building Ordinance or Law Endorsement, if the enforcement of any building, zoning or land use law results in loss or damage, increased cost of repairs or reconstruction, or additional demolition and removal costs. (The endorsement must provide for contingent liability from the operation of building laws, demolition costs, and increased costs of reconstruction.)
- A Steam Boiler and Machinery Coverage Endorsement, if the project has central heating or cooling. This endorsement should provide for the insurer’s minimum liability per accident to at least equal the lesser of \$2 million or the insurable value of the building(s) housing the boiler or machinery. In lieu of obtaining this as an endorsement to the commercial package policy, the project may purchase separate standalone boiler and machinery coverage.

## Named Insured

The property insurance policy must show the HOA as the named insured. If the condo’s legal documents permit it, the policy can specify an authorized representative of the HOA, including its insurance trustee, as the named insured. The “loss payable” clause should show the HOA or the insurance trustee as a trustee for each unit owner and the holder of each unit’s mortgage loan.

The insurance policy also must include the standard mortgagee clause\* and must name as mortgagee either Fannie Mae or the servicers for the mortgage loans or share loans Fannie Mae holds on units in the project. When a servicer is named as the mortgagee, its name must be followed by the phrase “its successors and/or assigns.”

**NOTE:** For blanket policies, please refer to the Selling Guide.

## Flood Insurance

If a first mortgage is secured by a unit in a condo project and any part of the improvements are in a Special Flood Hazard Area (SFHA), the lender must verify that the HOA is maintaining a master or blanket policy of flood insurance and is providing for premiums to be paid as a common expense.

### Amount of Coverage for Project Developments

For most condo projects, the amount of coverage should be at least equal to the lesser of 100% of the insurable value of each insured building (including all common elements and property) or the maximum coverage available under the applicable National Flood Insurance Program (NFIP).

#### Deductible

The maximum allowable deductible for a condo project is \$25,000. For private flood insurance policies, the maximum allowable deductible can be no greater than the NFIP maximums based on the property type (i.e., currently a maximum of \$5,000 for individual unit properties and a maximum of \$25,000 for condo projects).

#### Coverage Components

For condo projects, the required coverage has three components:

- The building coverage should equal 100% of the insurable value of the common elements and property (including machinery and equipment that are part of the building)
- The contents coverage should equal 100% of the insurable value of all contents (including machinery and equipment that are not part of the building) that are owned in common by the association members
- The coverage for each unit should be the lesser of \$250,000 or the amount of its replacement cost. If this required coverage exceeds the maximum coverage available under the NFIP, Fannie Mae will accept coverage equal to the maximum amount that is available

### Amount of Coverage for Individual Units

A separate policy is required for each dwelling unit that secures a mortgage that is delivered when a HOA refuses to obtain a Residential Condominium Building Association Policy (RCBAP) or equivalent private insurance, or when the RCBAP or equivalent private insurance does not comply with FNMA.

The minimum amount of flood insurance required is the lower of:

- 100% of the replacement cost of the insurable value of the improvements
- The maximum insurance available from the National Flood Insurance Program, which is currently \$250,000 per dwelling

#### Deductible

Unless a higher maximum allowable deductible amount is required by state law, the maximum allowable deductible for a flood insurance policy for a first- and second-lien mortgage loan is \$5,000.

## Project Review Types and the Insurance Required

### FNMA Desktop Underwriter

	Condo Subject to a Limited Review <sup>1</sup>	Condo Subject to a Full Review	New Attached PUD Project	Established Attached PUD Project	Detached PUD Project (New or Established)
Project Code	Q <sup>2</sup>	R – New Project S - Established	F PUD	E PUD	F PUD – New Project E PUD – Established
<b>Fidelity Insurance<sup>3</sup></b>	Not Required	Required	Not Required	Not Required	Not Required
<b>Liability<sup>4</sup> Insurance</b>	Not Required	Required	Not Required	Not Required	Not Required
<b>Property Insurance</b>	Required	Required	Required	Required	Not Required
<b>Severability of Interest</b>	Not Required	Required	Not Required	Not Required	Not Required
<b>Building Ordinance of Law Endorsement</b>	Required	Required	Required	Required	Not Required

<sup>1</sup> FNMA allows a Limited Review for existing projects when the transaction is owner occupied (max LTV/CLTV/HCLTV is 80%) or when it is for a second home (max LTV/CLTV/HCLTV is 75%).

<sup>2</sup> Detached condos also require special feature code 588, in addition to the project type Q designation.

<sup>3</sup> FNMA does not require fidelity insurance when the project has 20 units or less or when the amount of fidelity coverage would be \$5,000 or less.

<sup>4</sup> Liability insurance is not required for 2-4 unit condo projects

# Project Insurance Policy (Cont.)

## FHLMC Loan Prospector

	Condo Subject to a Streamlined Review <sup>1</sup>	Condo Subject to a Full Review	New Attached PUD Project	Established Attached PUD project	Detached PUD Project (New or Established)
Project Code	Q	R – New Project S - Established	F PUD	E PUD	F PUD – New Project E PUD – Established
<b>Fidelity Insurance<sup>2</sup></b>	Not Required	Required	Not Required	Not Required	Not Required
<b>Liability Insurance</b>	Not Required	Required	Not Required	Not Required	Not Required
<b>Property Insurance</b>	Required	Required	Required	Required	Not Required
<b>Severability of Interest</b>	Not Required	Required	Not Required	Not Required	Not Required
<b>Building Ordinance of Law Endorsement</b>	Required	Required	Required	Required	Not Required

<sup>1</sup> FHLMC allows a Streamlined Review for existing projects when the transaction is owner occupied (max LTV/CLTV/HCLTV is 90%) or when it is for a second home (max LTV/CLTV/HCLTV is 75%).

<sup>2</sup> FHLMC does not require fidelity insurance when the project has 20 units or less.