Chapter 31
Insurance Requirements for the Small Balance Loan Purchase Product

31.1 SBL insurance requirements and insurance terms (08/04/15)

This chapter applies to SBL Mortgages.

a. Requirements for adequate property and liability insurance coverage (08/04/15)

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 SBL Mortgage and ensure, to its satisfaction, that adequate property and liability insurance coverage is in place for the SBL Mortgage. The term **"Recommended Insurance Standards"** as used in the SBL Addendum means all of the standards for insurance coverage and limits as well as any related guaranty requirements set forth in Sections 31.2 through 31.28 of the SBL Addendum.

When evaluating the adequacy of the property and liability insurance coverage for the SBL Mortgage, the Seller/Servicer must refer to the Recommended Insurance Standards and must document, as specified in Section 31.1(b), any insurance coverage limit, insured peril, or other aspect of the insurance coverage that differs from the Recommended Insurance Standards.

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

b. Representation of adequate insurance coverage; Coverage and Gap Reporting (08/04/15)

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 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 (if applicable)

The Coverage and Gap Reporting entered into ICT by the Seller/Servicer will be accepted by Freddie Mac as the Seller/Servicer's representation of adequate property and liability insurance coverage for the Mortgage and justification of the adequacy of coverage where coverage gaps are present.

c. Form of Coverage (08/04/15)

The required insurance coverage for the SBL Mortgage 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 of coverage, each policy, endorsement or rider must show the complete address of the Property.

d. Additional Insurance Terms (08/04/15)

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. **Blanket Insurance** may be provided by an individual policy or a master program. Blanket Insurance provides one "per occurrence" (per peril) limit of coverage as a shared limit for two or more properties.

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

4. **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.

5. **Replacement Cost**
   The Replacement Cost is the estimated cost to replace the Property on the same premises with a Property of comparable material and quality and used for the same purpose.

   The following items should not be included in the estimated Replacement Cost:
   - Cost to reconstruct the foundation(s). (However, when determining the Replacement Cost of a Property for flood insurance, the Replacement Cost 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 Replacement Cost, the most common resources include:

- **Insurance company –** the Replacement Cost 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 Replacement Cost calculations or publishes data used for this purpose

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

7. **Schedule of Values (SOV)**
A Schedule of Values (SOV) is a listing of values provided to an insurance company to identify the properties and Replacement Costs and other values of the properties for which an insured Borrower requires coverage under a property insurance policy.

8. **Specific Insurance**
Specific Insurance may be provided through an individual policy or a master program. Specific Insurance provides one "per occurrence" (per peril) limit that applies to one location**.**

31.2 General requirements for Borrower's property damage and general liability insurance (05/07/07)

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 (07/01/11)

The standard ISO "Causes of Loss – Special" Form or "All Risk" and the Commercial General Liability form are acceptable forms of property damage and liability insurance, respectively.

b. Insurance term (04/30/13)

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 meets all other requirements. If the policy will expire within 90 days of submission of the full underwriting package, the Freddie Mac Funding Date or any date related to special insurance arrangements made with Freddie Mac *Multifamily Asset Management, Servicer and Data Management*, as applicable, the Seller/Servicer must provide an insurance certificate, ACORD, binder, letter or other acceptable documentation from the insurance broker, agent or company stating that the policy is eligible for renewal, to one of the following, as applicable:

- The *Applicable Freddie Mac Multifamily Regional Office,*
- The *Multifamily TAH Underwriter, or*
- Freddie Mac *Multifamily Asset Management, Servicer and Data Management*.

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 (07/01/14)
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 or mortgage holders 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) required by the Purchase and Servicing Documents must contain a standard additional insured provision.

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 (07/01/14)
Unless required otherwise by State law, each property damage policy and liability 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.

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 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:

INSURANCE CARRIER RATINGS AND FINANCIAL SIZE CATEGORIES					
Aggregate Carrier Exposure	**Minimum A.M. Best Financial Strength Rating**	**AND**	**Minimum A.M. Best Financial Size Category**	**OR**	**Minimum Rating from: Fitch Inc., Standard & Poor's Rating Services, or Moody's Investors Service Inc.**
≤ $5 million	A-	AND	VII	OR	• A- by Fitch Inc., or • A- by Standard & Poors Ratings Services, or • A3 by Moody's Investors Service Inc.
> $5 million & ≤ $25 million	A-	AND	VIII		
> $25 million	A-	AND	IX		

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

Aggregate Carrier Exposure (for each individual carrier)		
Insurance type		**Aggregate Carrier Exposure**
Property damage insurance	Specific Insurance or policy for one Property	Required building coverage limits + required Business Income/Rental Value Insurance
	Blanket Insurance or master program from one carrier	Blanket Insurance or master program limit
	An individual policy, Blanket Insurance or master program with more than one carrier participating with layered limits	Total limit provided by the carrier in all layers in which the carrier participates
Liability insurance	Specific Insurance or policy for one Property	Total aggregate limits (general liability + excess/umbrella)

	Liability insurance for multiple properties, or master program from one carrier	Total aggregate limits (general liability + excess/umbrella)
	An individual policy, liability insurance policy for multiple properties or master program with more than one carrier participating with layered limits	Total limit provided by the carrier in all layers in which the carrier participates

31.4 Property and damage insurance

a. Maintaining adequate property damage coverage (01/01/13)

The Seller/Servicer must annually:

- Review the estimated Replacement Cost of the Property.
- Retain the most recent Replacement Cost estimate and justification in the Mortgage File, and
- Certify to Freddie Mac, via the Insurance Compliance Tool (ICT), that
  - All applicable insurance policies comply with the applicable requirements in this Chapter, and
  - The property damage limits comply with the requirements in Section 31.4 and 31.5 as applicable

b. Property damage coverage requirements (01/01/13)

1. "Causes of Loss – Special Form" and "All risk" policy

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 a policy known as a "Causes of Loss – Special Form" or "All Risk" policy. Such insurance must

- Be written in an amount not less than 100 percent of the estimated Replacement Cost of the insurable 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 Replacement Cost.

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.)

2. **Property damage deductible**
The maximum deductible per occurrence (other than National Flood Insurance Program (NFIP), windstorm and earthquake insurance) for property damage insurance for Specific Insurance is:

Replacement Cost	Maximum Deductible
< $10 million	$50,000
≥ $10 million	$75,000

c. **Expanded deductible (05/31/12)**
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 except National Flood Insurance Program (NFIP) and earthquake insurance if all of the conditions below have been met.

Expanded Deductibles

Replacement Cost	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.

31.5 Blanket Insurance (08/04/15)

Freddie Mac permits Blanket Insurance policies insuring 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 identifies any Property encumbered by a Mortgage purchased by Freddie Mac and includes 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; 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 the Blanket Insurance policies provide adequate coverage relevant to the risks associated with the borrower's portfolio of properties covered by the policies.

The Seller/Servicer must obtain and review sufficient information to evaluate the Borrower's portfolio covered by the Blanket limits including concentrations of insurable value in geographical locations or with respect to any applicable peril, including catastrophic perils such as windstorm, flood, earthquake, etc. The Seller/Servicer must collect appropriate documentation such as Schedules of Value, insurance coverage descriptions or policies, or other relevant documentation the Seller/Servicer deems necessary to complete its analysis. Other relevant information may include property addresses (street, city, state, zip code), number of stories of buildings, property replacement cost, business income/rental value, business personal property (if any), whether a property is located in SFHA zone A or V, whether a property is located in an Elevated Seismic Hazard Region (as defined in Section 16.2(a)), and other information deemed relevant to evaluate the adequacy of the blanket limits.

a. Blanket limit minimum requirements (01/01/13)

The Seller/Servicer must determine, to its satisfaction, that the blanket property damage limits, including any sub-limits, are adequate for the applicable risks and meet the following minimum requirements:

- The "All-Risk" limit must be no less than the greater of the following:
    - The largest individual TIV for properties covered by the Blanket Insurance policy limit, or
    - 10% of the aggregate TIV of the entire portfolio covered by the Blanket Insurance policy limit
- If Windstorm coverage is provided on a blanket limit basis, the windstorm limits must, at a minimum, be no less than the following:
    - For all properties located in Tier 1 Windstorm Risk counties, 40% of the aggregate TIV within the State covered by the Blanket Windstorm limit (e.g., for Florida, 40 % of the aggregate TIV of all properties within Tier 1 Windstorm Risk counties in Florida covered by the policy; for Texas, 40% of aggregate TIV of all properties in Texas covered by the policy that are located in Tier 1 Windstorm Risk counties in Texas).
    - For all other properties located outside Tier 1 Windstorm Risk counties, blanket windstorm limits must be no less than the greater of the following:
        - The largest individual TIV for properties covered by the Blanket windstorm limit, or
        - 10% of the aggregate TIV of the entire portfolio covered by the Blanket windstorm limit
- If the Blanket Insurance policy provides flood insurance and flood coverage is required for the Property, the policy must cover all buildings that are fully or

partially located in a Special Flood Hazard Area (SFHA). The Blanket policy limit for flood must be no less than the greater of the following:

- The sum of the maximum flood insurance coverage available from the National Flood Insurance Program (NFIP) for each building located in SFHA "A" or "V" or.
- The largest individual TIV of all properties within the portfolio that require flood insurance per Section 31.8, or
- 40% of the largest aggregate TIV within any MSA that contains properties for which flood insurance is required (e.g., evaluate the aggregate flood exposure by MSA, and the blanket flood insurance limit must be equal to 40% of the largest aggregate TIV of properties for which flood coverage is required).

- If the Blanket Insurance policy provides coverage for Boiler and Machinery insurance or Ordinance and Law insurance, the per occurrence limit(s) for the applicable coverage must, at a minimum, provide the coverage required by a policy providing Specific Insurance for the property.

b. Deductible for Blanket Insurance policy or master program (01/01/13)

The maximum per occurrence deductible for a Blanket Insurance policy or master program providing property damage coverage is one percent of the Replacement Cost of the covered properties, to a maximum deductible of $250,000.

If the limit of the Blanket Insurance policy or master program provides insurance for Business Income/Rental Value Insurance or Boiler and Machinery Insurance, the deductible must comply with the applicable sections of the Guide:

- 31.6, Business Income/Rental Value Insurance
- 31.10, Boiler and Machinery Insurance

c. Blanket Insurance policies written with unrelated borrowers or properties (01/01/13)

Freddie Mac recognizes that some Blanket Insurance or master program property damage insurance may be purchased by unrelated Borrowers, Borrower Principals, or by entities covering unrelated properties. This includes Blanket Insurance policies that are written for properties and Borrowers, Borrower Principals or entities that are only related through the relationship with the property management company. 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.

31.6 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

If windstorm and/or windstorm related perils and/or "named storms" (referred to as "Windstorm Coverage") are excluded from the primary property damage insurance policy, separate Windstorm Coverage must be obtained, either through an endorsement or a separate policy.

a. Windstorm coverage requirements (01/01/13)

Windstorm Coverage must

- Be written in an amount no less than 100 percent of the estimated Replacement Cost of the insurable improvements without any deduction for depreciation, and
- Either not contain a Coinsurance Clause or contain a Coinsurance Clause that is offset or suspended by an Agreed Amount provision. If an Agreed Amount provision is used, the Agreed Amount must not be less than the estimated Replacement Cost.

If separate Windstorm Coverage is required, the Borrower must ensure that Business Income/Rental Value Insurance relevant to Windstorm Coverage is also in place..

b. Windstorm deductible (01/01/13)

The maximum deductible when Windstorm Coverage is provided by Specific Insurance is as follows:

- When expressed as a percentage, the maximum deductible per occurrence is 5 percent of the TIV of the Property.
- When expressed as a dollar amount, the maximum deductible is as follows:

TIV of the Property	Maximum deductible
< $10 million	$50,000
≥ $10 million	$75,000

c. Windstorm Coverage provided by Blanket Insurance (01/01/13)

If Windstorm coverage is provided on a blanket limit basis, the windstorm limits must, at a minimum, be no less than the following:

- For all properties located in Tier 1 Windstorm Risk counties, 40% of the aggregate TIV within the State covered by the Blanket Windstorm limit (e.g., for Florida, 40 % of the aggregate TIV of all properties within Tier 1 Windstorm Risk counties in Florida covered by the policy; for Texas, 40% of aggregate TIV of all properties in Texas covered by the policy that are located in Tier 1 Windstorm Risk counties in Texas).

- For all other properties located outside Tier 1 Windstorm Risk counties, blanket windstorm limits must be no less than the greater of the following:
  - The largest individual TIV for properties covered by the Blanket windstorm limit, or
  - 10% of the aggregate TIV of the entire portfolio covered by the Blanket windstorm limit

The maximum deductible when Windstorm Coverage is provided on a Blanket limit basis is as follows:

- When expressed as a percentage, the maximum deductible per occurrence is 5 percent of the TIV of the covered properties.
- When expressed as a dollar amount, the maximum deductible per occurrence is $250,000.

d. Windstorm Coverage through a State Windpool (01/01/13)

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 Replacement Cost 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 Replacement Cost of the insurable improvements without any deduction for depreciation, and
   - The Agreed Amount must equal the estimated Replacement Cost.

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 Replacement Cost of the insurable improvements without any deduction for depreciation.
- The Replacement Cost estimate must meet the requirements of the Guide.
- The Servicer must document in the Mortgage File that there is a Replacement Cost estimate dated within 12 months of the request for Coinsurance.
- The policy must contain a Coinsurance Clause less than or equal to 90 percent (such as 70 percent or 80 percent).

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

If at expiration of the policy the Borrower is unable to obtain a policy that complies with Section 31.7(a), and the Borrower is only able to obtain a policy from a State Windpool, the Borrower must obtain a new policy in compliance with this section.

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 requirements

a. Special Flood Hazard Area (SFHA) (05/07/07)

As of the Freddie Mac Funding Date and throughout the term of the Mortgage, Freddie Mac requires flood insurance on a Property located in a Special Flood Hazard Area (SFHA) designated as Zones A and V. Zones A and V also include the following Zones: AE, A1 – 30, AH, AO, AR, A99, VE, and V1 – 30, as identified in the Federal Emergency Management Agency's (FEMA) National Flood Insurance Program (NFIP) maps.

FEMA determines SFHAs, and the determinations may change from time to time. The Seller/Servicer must be aware of any changes in flood zone determinations and require flood insurance if flood insurance requirements apply to a Property in that zone.

b. Flood zone determination (05/07/07)

The Seller/Servicer must make or obtain a flood zone determination (FZD) for each Mortgage to be sold to Freddie Mac. The FZD determines whether any of the buildings (including each insurable improvement, whether habitable or not) on the Property are located in an SFHA.

The Seller/Servicer, or the party from whom the FZD was obtained, must document the FZD using the Standard Flood Hazard Determination form issued by FEMA. If a party other than the Seller/Servicer makes a flood zone determination, that party must have guaranteed to the Seller/Servicer the accuracy of the determination in accordance with federal law.

c. Mortgages ineligible for purchase (07/01/11)
See Section 8.14.

d. Mortgages eligible for purchase (07/01/11)

1. Flood insurance required

If any building (including each insurable improvement, whether habitable or not) that is part of the Property is located in an area that has been identified by FEMA as a Special Flood Hazard Area (SFHA) and the community where the Property is located participates in the NFIP, the Seller/Servicer must ensure that flood insurance is in force for each such building as of the Freddie Mac Funding Date and that the Borrower maintains the insurance for the term of the Mortgage.

2. Flood insurance not required

Freddie Mac does not require flood insurance if there are no buildings on the Property located in an SFHA.

e. Flood Coverage requirements (01/01/13)

1. Flood Coverage requirements

For each building that is part of the Property (including each insurable improvement, whether habitable or not) that is fully or partially located in an SFHA, flood insurance coverage must, at a minimum, equal the higher of:

- The maximum flood insurance available under NFIP for each building being insured, or
- An amount no less than the sum of the following for each building being insured:
  - The estimated Replacement Cost of all areas below grade, plus
  - The estimated Replacement Cost of the bottom two stories above grade

The Borrower may obtain the required flood insurance coverage from NFIP and/or a private flood insurance carrier. If the Borrower obtains coverage from NFIP, the Borrower must obtain the maximum available per building. The balance of the required coverage must be provided through private flood insurance. If the Borrower uses private flood insurance, the terms and conditions of the flood insurance coverage must be at least equivalent to the terms and conditions of coverage provided under the standard policy of NFIP insurance for the type of improvement insured. If there is a lapse in the availability of NFIP flood insurance policies due to the temporary expiration of NFIP's authority, the Borrower must obtain or renew, as applicable, the required flood insurance from a private flood insurance carrier.

If the Business Income/Rental Value Insurance required in Section 31.6 is not included in the primary or flood insurance policy, the Borrower must obtain separate Business Income/Rental Value Insurance relevant to a flood loss.

2. Flood Coverage provided by Blanket Insurance

If flood insurance is provided on a blanket limit basis, the policy must cover each building that is part of the Property (including each insurable improvement, whether habitable or not) that is fully or partially located in a Special Flood Hazard Area (SFHA).

The Blanket Insurance policy limit for flood must be no less than the greater of the following:

- The sum of the maximum flood insurance available from NFIP for each building (located in SFHA "A" or "V") covered under the Blanket Insurance policy (the policy limit for flood insurance may never be less than this requirement), or
- The largest individual TIV of all properties within the portfolio covered by the policy limit for flood that require flood insurance per Section 31.8, or
- 40% of the largest aggregate TIV within any MSA covered by the Blanket Insurance policy flood limit that also contains properties where flood insurance is required (e.g., evaluate the aggregate flood exposure by MSA, and the policy flood insurance limit must be equal to 40% of the largest aggregate TIV of properties for which flood coverage is required).

3. Maximum deductible

(a) NFIP

All NFIP policies must comply with the NFIP deductible for the type of improvement insured.

(b) Private flood insurance

The maximum per occurrence deductible for private flood insurance is:

- For a policy providing Specific Insurance:

TIV of the Property	Maximum deductible
< $10 million	$50,000
≥ $10 million	$75,000

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

f. 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

g. Evaluating the need for flood insurance coverage (01/01/13)

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 coverage for a Property that is 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 *Multifamily Asset Management, Servicer and Data Management*, along with a copy of the LODR, LOMA or LOMR and any other applicable documentation.

31.9 Earthquake insurance

a. Earthquake terms used in this chapter (04/30/13)

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

- **Seismic Risk Assessment (SRA)**
The Seismic Risk Assessment (SRA), sometimes referred to as a Probable Maximum Loss (PML) Report, is a property-level analysis that uses modeling techniques to assess the risk to a Property from earthquakes or other seismic events. It takes into consideration proximity to known tectonic faults, construction type and quality, building configuration, soil condition, geological and other factors. See Chapter 16 for Freddie Mac's requirements for an SRA.

- **Probable Maximum Loss (PML)**
The PML represents the likely (or probable) amount of damage to the Property's improvements that will be caused by a specific peril (earthquake, fire, etc.). The PML is stated as a percentage of the current Replacement Cost of those improvements. Freddie Mac has determined that for earthquake risks, the PML is

the mean level loss resulting from the damage experienced due to a 475-year return period earthquake, which is also referred to as the Scenario Expected Loss (SEL).

b. Earthquake insurance requirements (09/25/15)

In accordance with Chapter 16, Freddie Mac requires an SRA, sometimes referred to as a PML Report, 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 PML/SEL estimate is required for each building construction type. If any single building has a PML/SEL 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:

Property Location	PML/SEL	Earthquake Insurance
Not located in an Elevated Seismic Hazard Region	PML/SEL not required	Not required
Located in an Elevated Seismic Hazard Region	> 20% and ≤ 40%	Insurance required
Located in an Elevated Seismic Hazard Region	> 40%	Mortgage not eligible for purchase unless the affected buildings undergo a seismic retrofit (See Section 8.14)

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 PML/SEL and the projected loss of the 20 percent PML/SEL.

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 and have not yet been included in a Securitization.

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 16.2(b)
- Obtain an SRA in accordance with the requirements of Chapter 16
- Submit the seismic risk documentation described in Section 55.2 to *Multifamily Asset Management, Servicer and Data Management*

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, Servicer and Data Management* 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 Freddie Mac approval to discontinue earthquake coverage.

The Seller/Servicer must document the updated PGA calculation described in Section 16.2(b) and submit the evidence to Freddie Mac *Multifamily Asset Management, Servicer and Data Management* to request permission from Freddie Mac to discontinue or reduce earthquake insurance. The Servicer must retain all such evidence in the Mortgage File.

31.10 Boiler and Machinery insurance (01/01/13)

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.

The required coverage for Boiler and Machinery insurance must be written in an amount no less than 100% of the estimated Replacement Cost of the buildings housing the central HVAC system, including the Replacement Cost of the central HVAC system. 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:

Replacement Cost of the Property	Maximum per occurrence deductible
< \$10 million	\$50,000
≥ \$10 million	\$75,000

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

31.11 Builder's Risk insurance (01/01/13)

The term Builder’s Risk insurance, when used in this chapter, means a policy that insures against property damage to buildings under construction, rehabilitation, addition, significant alteration or repair. Freddie Mac requires Builder’s Risk insurance during construction of any additions, alterations, rehabilitations, new construction or repairs to the Property. The Borrower may meet this requirement with either an extension of the standard property damage insurance policy or a separate Builder's Risk policy.

Coverage must be for at least 100 percent of the sum of the contract or contracts and all materials to complete the work. The policy must cover fire and other perils covered within the scope of a policy known as a “Causes of Loss – Special Form” or “All Risk” policy.

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:

Replacement Cost of the Property	Maximum per occurrence deductible
< $10 million	$50,000
≥ $10 million	$75,000

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

31.12 Ordinance and Law coverage (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% to the specifications of the Property that existed at the time of the loss. The Seller/Servicer must provide evidence of 100% 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 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" = (Replacement Cost – (Replacement Cost X damage threshold percentage))

   For example:
   - If the Replacement Cost 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 Replacement Cost 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 Replacement Cost 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 Replacement Cost 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 (01/01/13)

Unless Freddie Mac notifies the Seller/Servicer otherwise, this Section does not apply to a Mortgage with an Origination Date prior to July 1, 2011, which was not required to have terrorism insurance at the time of origination.

Terrorism insurance is required for each Property, including any Property being refinanced, and must meet all of the requirements set forth in Chapter 31 of the Guide for:

- Property damage insurance in an amount no less than the estimated Replacement Cost in accordance with Section 31.4
- 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)

31.14 Localized perils insurance (04/30/13)

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, Servicer and Data Management*.

Coverage must no less than the estimated Replacement Cost of the buildings affected by the localized peril.

The maximum deductible for localized perils insurance is:

- For a policy providing Specific Insurance:

Replacement Cost of the Property	Maximum Deductible
< $10 million	$50,000
≥ $10 million	$75,000

- For a policy providing Blanket Insurance one percent of the aggregate Replacement Cost 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 (07/01/14)

Standard Commercial General Liability (CGL) insurance on an Occurrence-based Policy Form insuring against legal 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

The CGL insurance must pay for the cost of defending any covered claim arising out of or in connection with the ownership, possession, use, leasing, operation, maintenance or condition of the Property. The CGL policy must pay defense costs in addition to the limits required below.

If the Property has assisted living, Alzheimer's care and/or skilled nursing units, the general liability insurance (CGL, umbrella and/or excess liability insurance) may be written on a Claims Made Policy Form. Freddie Mac must be notified if the policy will be changed from a "claims made" policy form to an "occurrence-based" policy form or vice-versa. Freddie Mac reserves the right to review and approve the change.

a. Required CGL and umbrella or excess coverage (01/01/13)

The Seller/Servicer must, to its satisfaction, determine, support and document in the Mortgage File that the liability insurance complies with the following minimum requirements:

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.

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

Number of Properties	Number of Stories*	Minimum umbrella or excess liability limits*
1	1 to 3 4 to 10 11 to 20 >20	$1 million $3 million $5 million $10 million
2 to 3	1 to 3 4 to 10 11 to 20 >20	$3 million $5 million $10 million $15 million
4 to 10	1 to 3 4 to 10 11 to 20 >20	$5 million $10 million $15 million $20 million
11- 20	1 to 3 4 to 10 11 to 20 >20	$10 million $15 million $20 million $25 million
>20	1 to 3 4 to 10 11 to 20 >20	$15 million $20 million $25 million $50 million

*Based on the property with the greatest number of stories.

If the CGL aggregate limits apply per location, yet the CGL has an aggregate limit cap, then additional umbrella/excess liability limits must be obtained to cover the required minimum CGL per-location limit deficit.

If the underlying CGL aggregate limits are on a per-policy basis and cover multiple properties, then additional umbrella/excess liability limits must be contemplated to determine if limits are acceptable and cover deficiencies in the required minimum CGL and umbrella/excess per-location limits for all properties insured on the policy. The minimum coverage limits in this section may be satisfied with any combination of primary CGL, umbrella and/or excess.

b. Maximum deductible and Self-Insured Retention (SIR) for liability insurance (01/01/13)

The term Self-Insured Retention (SIR), when used in this chapter, refers to a characteristic that may generally be found in liability policies. The SIR requires that the Borrower take the first portion of the loss and/or pay certain expenses up to the SIR limit before an insurance policy provides coverage.

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 policies
- $10,000 for umbrella/excess liability policies

c. Vehicle liability insurance (07/01/11)

If the Borrower and/or the Property owns, leases, hires, rents, borrows, uses, or has another use on its behalf a vehicle in conjunction with the operation of the Property, the Borrower must maintain vehicle liability insurance of at least $1 million per accident.

d. Exclusions from CGL or other liability insurance policy (05/07/07)

If a Property contains any special hazard that is excluded from the CGL or other liability policy, such as garage operation or swimming pool, the Borrower must provide supplemental coverage for the hazard.

e. Other liability coverage (07/01/11)

The Borrower must also carry any additional liability coverage commonly required by institutional mortgage investors for properties that are similar to the Property in construction, location and use.

Freddie Mac reserves the right to require higher policy limits for a Property that Freddie Mac believes has higher risks.

Each Seniors Housing Property that has assisted living, Alzheimer's care and/or skilled nursing units must also obtain professional liability insurance as set forth in Section 31.17.

31.17 Professional liability insurance requirements for certain Seniors Housing Mortgages

a. Professional liability insurance requirements (01/01/13)

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

The policy may be written on a Claims Made Policy Form or an Occurrence-based Policy Form. The Seller/Servicer must obtain approval from Freddie Mac if the Borrower plans to switch the coverage from a Claims Made Policy Form to an Occurrence-based Policy Form.

The Seller/Servicer must, to its satisfaction, determine, support and document in the Mortgage File that the liability insurance complies with the following minimum requirements:

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.

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
100 to 500	$5 million
501 to 1,000	$10 million
Greater than 1,000	$25 million

If the primary PL aggregate limits apply per location, yet the primary PL policy has an aggregate limit cap, then additional umbrella/excess PL limits must be obtained to cover the required minimum per-location aggregate limit deficit.

If the primary PL aggregate limits are on a per-policy basis and cover multiple properties, then additional umbrella/excess PL limits must be contemplated to determine if limits are acceptable and cover deficiencies in the required minimum primary PL and umbrella/excess limits for all properties insured on the policy.

The minimum coverage limits in this section may be satisfied with any combination of primary PL, umbrella and/or excess.

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) (01/01/13)
Freddie Mac requires the following maximum deductible or SIR, or combined deductible and SIR:

- $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

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 Evidence of insurance for underwriting and final delivery (02/29/12)

This section provides the requirements for documenting evidence of insurance in the underwriting package, and in the final delivery package or prior to the Origination Date of the Mortgage. See Section 31.22 for information regarding evidence of insurance for renewals.

Seller/Servicers and their vendors must use the web-based Insurance Compliance Tool (ICT) to complete Freddie Mac Form 1133, Seller/Servicer Certification of Insurance Coverage. The ICT is capable of generating printed or PDF versions of the completed Forms 1133 which can be delivered to Freddie Mac or retained in the Mortgage File as required.

a. Evidence of insurance documentation in the underwriting package (04/30/13)

The Seller/Servicer must provide documentation to Freddie Mac in the underwriting package to verify that the Property has, or will have as of the Freddie Mac Funding Date, adequate property damage and liability insurance coverage as required by the Purchase and Servicing Documents. The documentation required by Freddie Mac in the underwriting package is as follows:

- Fully completed (but not executed) Freddie Mac Form 1133, Seller/Servicer Certification of Insurance Coverage
- The documents listed in Sections 31.20(a) through 31.20(c), as applicable

If the insurance will not meet the Freddie Mac insurance requirements, the Seller/Servicer must contact the *Applicable Freddie Mac Multifamily Regional Office* or the *Multifamily TAH Underwriter*, as applicable.

b. Evidence of insurance documentation prior to the Origination Date (07/01/11)

The Seller/Servicer must provide documentation to Freddie Mac prior to the Origination Date to verify that the Property has adequate property damage and liability coverage, as required by the Purchase and Servicing Documents. If the documentation is delivered by Multifamily DMS, the Seller/Servicer does not need to include a copy of the insurance documentation in the final delivery package. If the insurance documentation is not delivered by Multifamily DMS, a copy of the insurance documentation must be included in the final delivery package.

The documentation required by Freddie Mac prior to the Origination Date, or in the final delivery package, is as follows:

- Fully completed and executed Freddie Mac Form 1133, Seller/Servicer Certification of Insurance Coverage
- The documents listed in Sections 31.20(a) through 31.20(c), as applicable

An officer of the Seller/Servicer who is authorized to sign the certification must execute the certification of Form 1133. In addition, the executed Form 1133 submitted to Freddie Mac must include the same (or better) insurance coverage as the Form 1133 submitted to Freddie Mac in the full underwriting package, except as modified or amended by Freddie Mac at underwriting.

The Seller/Servicer must retain in the Mortgage File a copy of all insurance documentation provided to Freddie Mac prior to the Origination Date of the Mortgage or in the final delivery package. In addition, the Seller/Servicer must retain in the Mortgage File:

- A legible copy of each original insurance policy (including the individual policy or policies and/or the Blanket Insurance policy or master program) or duplicate original(s) for property damage and liability insurance for the Property
- A legible copy or duplicate original of the National Flood Insurance Program (NFIP) Policy Declarations page, if flood insurance is provided by NFIP

31.20 Documents to be included in the evidence of insurance (07/01/11)

This section lists the documents that Freddie Mac will accept as evidence of property insurance and liability insurance in the underwriting package, in the final delivery package or prior to the Origination Date of the Mortgage, and at renewal. See Section 31.19 for additional requirements that apply only to evidence of insurance at underwriting and final delivery. See Section 31.22 for additional requirements that apply only to evidence of insurance for renewals.

a. Acceptable evidence of property insurance, including private flood insurance (07/01/14)

Freddie Mac will accept a legible copy or duplicate original of any one of the following for each policy:

- ACORD Form 28, Evidence of Commercial Property Insurance, meeting the requirements in Section 31.21(b) and 31.21(c)
- ACORD Form 27, Evidence of Property Insurance, meeting the requirements in Section 31.21(b) and 31.21(c)
- ACORD 75, Insurance Binder
- Other equivalent documentation issued by an insurance company that does not use ACORD forms (such as a certificate of insurance or evidence of insurance)
- Mortgage Bankers Association (MBA) Evidence of Insurance – Commercial Property Form

- Property damage insurance policy including all endorsements, exclusions and any other items referenced in the policy

Each document provided must confirm that the insurance policy has been issued and is in force, and must meet the requirements of Section 31.21(a).

b. Acceptable evidence of National Flood Insurance Program (NFIP) flood insurance (07/01/11)

If flood insurance is provided by NFIP, Freddie Mac will accept a legible copy or duplicate original of any one of the following for each NFIP flood policy:

- Copy of the Policy Declarations page of the NFIP policy
- Completed and executed NFIP Flood Insurance Application plus a copy of the Borrower's premium payment check or agent's paid receipt and agent certification that the policy is issued and is in force
- Completed and executed NFIP Flood Insurance Application plus a copy of the settlement statement reflecting the payment of the flood insurance premium on, or prior to, the Origination Date of the Mortgage and agent certification that the policy has been issued and is in force
- Completed and executed NFIP General Change Endorsement Form showing the assignment of the current flood insurance policy by the Property seller to the Borrower and the corresponding Policy Declarations page

Each document provided must confirm that the insurance policy has been issued and is in force, and must meet the requirements of Section 31.21(a).

c. Acceptable evidence of liability insurance (07/01/11)

Freddie Mac will accept a legible copy or duplicate original of at least one of the following for each policy:

- ACORD Form 25, Certificate of Liability Insurance
- ACORD 75, Insurance binder
- Other equivalent documentation issued by an insurance company that does not use ACORD forms (such as a certificate of insurance or evidence of insurance)
- Liability insurance policy including all endorsements, exclusions and any other items referenced in the policy

Each document provided must confirm that the insurance policy has been issued and is in force, and must meet the requirements of Section 31.21(a).

31.21 General requirements applicable to all property damage and liability insurance documentation (07/01/11)

This section contains requirements that apply to all insurance documentation, regardless of whether it is provided to Freddie Mac in an underwriting package, in the final delivery package, prior to the Origination Date of the Mortgage or at renewal.

a. General requirements applicable to insurance documentation (07/01/11)

All insurance documentation must meet the following requirements:

- The documentation must include the address or addresses of the Property or Properties being insured and the amount of coverage attributable to each Property.
- Each form of documentation provided to document the insurance coverage must be sufficiently detailed to confirm that the insurance coverage (including the Agreed Amount provision, deductible, self-insured retention (SIR) and other requirements) required by the Purchase and Servicing Documents is or will be in effect as of the Freddie Mac Funding Date
- For an underwriting package or a final delivery package pertaining to the refinance of an existing mortgage not owned by Freddie Mac, the mortgagee or mortgage holders clause and additional insured endorsement must be changed to reflect the requirements of the Guide as of the Origination Date of the Mortgage

b. ACORD 27 and 28 requirements (07/01/11)

Freddie Mac will accept evidence of property damage insurance on ACORD 27 or ACORD 28 provided that the form includes the language in item 1 and 2 below:

1. Confirmation that the policies have been issued:
   a. This is evidence that insurance as identified below has been issued, is in force, and conveys all the rights and privileges afforded under the policy, or

   b. Property information section: the policies of insurance listed below have been issued to the insured named above for the policy period indicated notwithstanding any requirement, term or condition of any contract or other document with respect to which this evidence of property insurance may be issued or may pertain, the insurance afforded by the policies described herein is subject to all the terms, exclusions and conditions of such policies, or

   c. Other language similar to the intent and effect of items 1(a) and 1(b) above, confirming that the policy or policies have been issued.

2. Cancellation section
   a. Should any of the above described policies be cancelled before the expiration date thereof, notice will be delivered in accordance with the policy provisions, or

   b. Should the policy be terminated, the company will give the additional interest identified below ____ days written notice, and will send notification of any changes to the policy that would affect that interest, in accordance with the policy provisions or as required by law, or

   c. Other language similar to the intent and effect of items 2(a) and 2(b) above, confirming that the company will notify the applicable parties of the cancellation.

c. Unacceptable language on ACORD 27 and 28 (07/01/11)

Freddie Mac will not accept evidence of property damage insurance on ACORD 27 or 28 if the ACORD includes the following language:

1. Should any of the above described policies be cancelled before the expiration date thereof, the issuing insurer will endeavor to mail ____ days written notice to the additional interest named below, but failure to mail such notice shall impose no obligation or liability of any kind upon the insurer, its agents or representatives, or

2. Other language similar to the intent and effect of the language above stating that the insurer will "endeavor" to mail notice and/or language that imposes no obligation or liability on the insurer for failure to notify.

31.22 Verification of required and continuing property and liability insurance coverage

a. Required coverage (07/01/11)

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 Replacement Cost 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, Servicer and Data Management* and explain that the insurance is no longer required.

b. Continuing coverage (07/01/11)

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) through 31.20(c), as applicable

See also the annual certification requirements in Section 31.4(a) and 31.5(a).

31.23 Reinstatement of coverage (05/07/07)

If the insurer issues a property damage insurance policy that reduces the amount of insurance after each claim is paid, then immediately following a loss, the Seller/Servicer must require the Borrower to have the insurer increase the limits of the policy to the full policy limits that existed prior to the loss.

31.24 Ensuring continuous insurance coverage (07/30/11)

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 (01/01/13)

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, Servicer and Data Management*.

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, Servicer and Data Management* 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 Replacement Cost 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, Servicer and Data Management* 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 (07/01/11)

If coverage is forced placed as described in 31.24(b), the Servicer must immediately send written notification to Freddie Mac *Multifamily Asset Management, Servicer and Data Management* 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 (10/31/12)
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, Servicer and Data Management*. 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 Insurance requirements for third party consultants (08/04/15)

See Section 15A.17(d).

31.27 Captive insurance companies (04/30/13)

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, Servicer and Data Management*

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 Replacement Cost 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.