



Multifamily Insurance

Self-Study Workbook

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About This Workbook

Introduction

This workbook provides you with five exercises related to the most recent insurance changes in the Multifamily Seller/Service Guide (the Guide), effective July 1, 2011.

The exercises include case studies to assist you with reviewing, analyzing, and determining compliance with the insurance requirements specified in the Guide.

It is beyond the scope of this workbook to include references to every policy and requirement identified in the Guide. You should always refer to the Guide for clarification or additional information on Multifamily Mortgage Policies and requirements.



This workbook does not replace the Guide and should not be used independently of the Guide. Please refer to the Guide at all times to confirm compliance with insurance requirements.

Workbook Scope

This workbook is activity-based and will help you become familiar with changes to the following five policies in the Guide:

1. Blanket Insurance
 2. Collecting Escrows
 3. Acceptable Insurers
 4. Flood Insurance
 5. Evidence of Insurance Documentation
-

Using This Workbook

You will need to have a copy of the Guide to complete the exercises in this workbook. A calculator is recommended, but not required to complete some of the exercises in this workbook.

About This Workbook, Continued

Icons Used in This Workbook

The table below identifies and describes icons used in this workbook.

Icon	Description
	Important points to remember.
	Key terms used in the exercise. Definitions are in the Glossary of Terms at the end of the workbook.
	A reference to a section in the Multifamily Seller/Service Guide.
	Documents used in the exercise. Note: Documents used in the workbook exercises are considered acceptable according to the Multifamily Seller/Service Guide requirements. These documents are only examples and should only be used when completing the related exercises in this workbook.
	Points to Consider. Questions are included with each case study to assist you in reviewing insurance related documents. These questions have been added as a guide only, and are not included as a quiz or to be answered as part of the exercise. Use these questions to assist you in thinking about the details while reviewing actual insurance related documents in your job.

Conventions Used in This Workbook

Case Studies

Each exercise is based on a case study containing fictitious information to assist you in completing the activity described at the beginning of each exercise.

Points to Consider

To accomplish the activities for each exercise, you are provided with questions to encourage you to think critically while reviewing each document.

Documents

Most exercises contain documents or forms to review that are related to each case study. Exercises that do not include documents are noted.

Continued on next page

About This Workbook, Continued

Conventions Used in This Workbook (continued)

Answer Key

Narratives of the results of each case study are included at the end of this workbook. Check the results after completing each exercise.

Structure

Exercises included in this workbook follow the structure below:

Overview of the exercise

Objective(s) of the Exercise



Section(s) in the Guide to refer to when completing the exercise



Key terms used in the exercise



Documents or forms used in the exercise

Assumptions of the information already known while completing the exercise. Please note that assumptions are included when applicable

Case study describing the activity and document to be reviewed during the exercise



Points to Consider

Acronyms Used in This Workbook

Acronym	Meaning
CGL	Commercial General Liability
DIC	Difference In Conditions
NFIP	National Flood Insurance Program
PML	Probable Maximum Loss
SIR	Self Insured Retention
SFHA	Special Flood Hazard Area
SOV	Statement of Value
TIV	Total Insurable Value

Exercise 1

Blanket Insurance



Exercise 1: Blanket Insurance

Overview

Freddie Mac permits property damage limits provided by 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. The Seller/Servicer must, to its satisfaction, determine, support and document in the Mortgage File that the property damage insurance provided by the Blanket Insurance complies with the requirements outlined in Section 31A.5(a) of the Guide.

There are two different case studies in this exercise. Review the related Statements of Value (SOV) to determine if enough information is provided to verify the adequacy of coverage.

Objectives of This Exercise

At the end of this exercise, you should be able to:

- Define Blanket Insurance as defined in the Guide
 - Identify situations when additional information or due diligence is needed to verify adequacy of coverage
 - Identify acceptable documents to use to determine, support and document adequate coverage
 - Adhere to the requirements in the Guide to determine adequacy of coverage
-



Refer to the following sections in the Guide to complete this exercise:

- Sections 31A.1(b), and Section 31A.6 of the Guide
 - Additional Guidance: Sections 31A.5(a), (b) and (c) of the Guide
-



Key terms used in this exercise:

- Blanket Insurance
 - Specific Insurance
-



Documents acceptable to determine, support and document that the limits of the Blanket Insurance policy are appropriate for the insurable value of the Borrower's portfolio:

- Probable Maximum Loss (PML) analysis
 - Statement of Values (SOV)
-

Continued on next page

Exercise 1: Blanket Insurance, Continued

Assumptions

Assume that the following are true:

1. Insurance complies with all other sections of the Guide
 2. Deductibles do not exceed 1% of the Replacement Cost to a maximum of \$250,000
-

Case Study 1

A Borrower has provided a SOV with all of the required data except for the number of stories for each building. The Freddie Mac property is located at:

- 109 Henry Street, Staunton, VA 24401

The Borrower has a \$50,000,000 loss limit Blanket Insurance policy that covers all properties on the SOV.

Additional SOV details show:

- The highest Replacement Cost is for the property in Mount Airy, NC
 - The highest rental value coverage (for \$7,390,500) is also for the property in Mount Airy, NC.
 - Property and business interruption coverage total is \$49,774,500
 - There is a concentration of properties in Montgomery, AL totaling \$30,989,289
 - The subject property is not located in a catastrophic prone area
-

Exercise 1: Blanket Insurance, Continued

Activity

Review the SOV on the next page for this case study to determine if the Blanket Insurance policy complies with the requirements described in the Guide.



Points to Consider

The following questions may provide guidance while you are reviewing or verifying actual insurance-related documents. These questions are not required to be answered as part of this exercise, but are included to encourage you to think critically about the documents you are reviewing.

1. Where is the location of the property with the highest Replacement Cost?
 2. Of the total costs and values listed on the SOV, what costs/values should be considered in assessing the Blanket Insurance?
 3. Are the properties located in other geographic areas likely to breach the \$50,000,000 limit for a single loss?
 4. Is the largest asset covered by the loss limit?
 5. Does the loss limit cover at least 40% of the Replacement Cost?
 6. Will you need to provide a waiver to Freddie Mac?
 7. Based on the SOV provided by the Borrower, are you able to satisfactorily determine if the Blanket Insurance policy provides adequate coverage?
-

Exercise 1: Blanket Insurance, Continued

Property/Location	Bldg Sq Ft	Sprinkler	PC	Buildings/ Signs Rep. Cost	*Rental Value	TIV
1234 Arlo Rd, Mount Airy NC 27030	575,975	Yes	3	\$42,387,000	\$7,390,500	\$50,085,500
2754-2788 Thomas St, Columbus GA 31909	575,975	Yes	2	\$11,857,000	\$3,587,500	\$15,444,500
1132-1140 Forest Ave, Greensboro NC 27410	106,082	Yes	2	\$8,215,250	\$1,909,300	\$10,124,550
8575-2670 Eddie St, Montgomery AL 36117	88,282	Yes	2	\$6,864,150	\$1,160,000	\$8,024,150
6924 North Ave, Decatur AL 35601	97,654	Yes	2	\$7,187,000	\$609,500	\$7,796,500
996 East Jay St, Montgomery AL 36117	98,015	Yes		\$3,025,000	\$320,750	\$3,345,750
1129 Westmoreland Lake Dr, Greensboro NC 27410	110,630	Yes	3	\$8,254,250	\$1,192,450	\$9,446,700
109 Henry St, Staunton VA 24401	520,000	Yes		\$39,810,000	\$5,092,900	\$45,127,900
1018 Victory Blvd, Montgomery AL 36117	102,452	Yes	3	\$7,429,000	\$2,182,400	\$9,611,400
8675 Pelham Rd, Greensboro NC 27410	399,075	Yes	5	\$36,998,700	\$4,560,424	\$41,709,124
3095 Lorena Rd, Montgomery AL 36117	188,291	Yes	3	\$7,999,989	\$2,008,000	\$10,007,989
Totals				\$180,027,339	\$30,013,724	\$210,724,063

*18 Months Rent

Sample Statement of Value – Exercise 1 – Case Study 1

Exercise 1: Blanket Insurance, Continued

Case Study 2 A Borrower has provided a SOV for properties located in a Special Flood Hazard Area (SFHA). The SOV includes all of the data elements except the number of stories. There are 17 apartment complexes insured under the Blanket policy. Each property consists of only one building.

The Freddie Mac property is located at:

- Middle City Apartments, 4200 Woodchuck Avenue, Kill Devil Hills, NC

The loss limit is:

- \$3,000,000 per occurrence/annual aggregate Blanket Flood coverage (sub limit on their loss limit Blanket property policy)

Note: The Borrower does not carry National Flood Insurance Program (NFIP) coverage.

Activity Review the SOV on the next page for this case study to determine if the Blanket Insurance policy complies with the requirements described in the Guide.



Points to Consider

The following questions may provide guidance while you are reviewing or verifying actual insurance-related documents. These questions are not required to be answered as part of this exercise, but are included to encourage you to think critically about the documents you are reviewing.

1. Does the SOV include the information needed to determine adequate coverage? If not, what information is missing?
 2. What is the maximum amount that will be paid by the policy in a one-year term?
 3. Are all properties subject to the \$3 million coverage limit?
 4. Does any single property breach the coverage limit?
 5. Is the Blanket Insurance policy amount sufficient?
-

Exercise 1: Blanket Insurance, Continued

Loc. #	Name	Address	County	City	State	ZIP Code	Flood Zone	Property Total \$	Rental Income	TIV
2392	Bachman Crossing Apartments	519 Embargo Street	Hudson	Jersey City	NJ	07310	A	\$1,805,721.00	\$796,275.00	\$2,601,996.00
1234	Bachman Plaza Apartments	119 Cat Street	Hudson	Jersey City	NJ	07310	A	\$6,500,982.00	\$2,200,987.00	\$8,701,969.00
5678	Red Village Apartment Homes	1515 Mockingbird Lane	Sonoma	Petaluma	CA	94952	A	\$12,803,072.00	\$2,729,164.00	\$15,532,236.00
9101	Dorian Lake Apartments	123 Blue Avenue	Hudson	Jersey City	NJ	07310	A,X	\$130,125,081.00	\$26,112,232.00	\$156,237,403.00
9876	Mystic River Apartments	672 Green Parkway	Citrus	Crystal River	FL	34428	A11	\$39,327,792.00	\$3,019,483.00	\$34,327,275.00
5432	Ocean Air Apartments	777 Lucky Highway	Pasco	Port Richey	FL	34668	A13	\$41,051,159.00	\$7,398,621.00	\$48,449,780.00
1357	Wisteria Lane Apartment Homes	1 Fancy Drive	Kane	Aurora	IL	60504	AE	\$30,897,423.00	\$15,852,397.00	\$46,749,920.00
2468	Citrus Orchard Apartments	22 Grapefruit Way	Lee	Estero	FL	33928	AE	\$55,872,329.00	\$6,726,418.00	\$62,698,747.00
1000	Citrus Orchard Town Center Res over Retail	22 Grapefruit Way	Lee	Estero	FL	33928	AE	\$16,525,326.00	-	\$16,525,326.00
1001	Citrus Orchard Apartments Phase II	22 Grapefruit Way	Lee	Estero	FL	33928	AE	\$72,115,422.00	\$12,529,609.00	\$84,645,031.00
5555	Middle City Apartments	4200 Woodchuck Avenue	Dare	Kill Devil Hills	NC	27948	AE	\$5,029,298.00	\$815,948.00	\$5,845,246.00
7777	Jalopy Park Apartments	22 Turtle Blvd.	Manatee	Bradenton	FL	34205	AE	\$46,076,114.00	\$6,972,150.00	\$53,048,264.00
9277	Breezy Apartments	2 Brownstone Ave.	Dade	Miami	FL	33172	AE	\$34,319,659.00	\$17,472,811.00	\$51,792,470.00
3636	Parton Mills Apartments	16 Pigeon River Rd	Davidson	Nashville	TN	37214	AE	\$101,418,197.00	\$27,888,108.00	\$129,306,305.00
1298	The Nautilus Apartments	82 Cottontail Street	Jefferson	Kenner	LA	70065	AE	\$72,241,992.00	\$9,596,008.00	\$81,838,000.00
6676	Webber Square Apartments	82156 Labrador Rd.	Marion	Indianapolis	IN	46229	AE	\$46,103,771.00	\$5,285,392.00	\$51,389,163.00
7779	Stinson Square Apartments	999 Barney Crossing	Broward	Coral Springs	FL	33071	AH	\$44,519,322.00	\$14,451,867.00	\$58,971,189.00

State	TIVs by State
CA	\$15,532,236.00
FL	\$418,378,082.00
IL	\$46,749,920.00
IN	\$51,389,163.00
LA	\$81,838,000.00
NC	\$5,845,246.00
NJ	\$167,541,368.00
TN	\$129,306,305.00

Sample Statement of Value – Exercise 1 – Case Study 2

Exercise 2

Collecting Escrows



Exercise 2: Collecting Escrows

Overview

Freddie Mac requires Seller/Service providers to collect escrows to pay premiums on all required insurance policies including Blanket Insurance policies, master programs, and liability insurance policies covering multiple properties, and if required, National Flood Insurance Program (NFIP) flood insurance. If escrows are not collected, the Seller/Service provider must ensure that the Borrower pays the premiums.

There are three different case studies in this exercise. Review the related invoices to determine what to require for the insurance impound account.

Objectives of This Exercise

At the end of this exercise, you should be able to:

- Review invoices to determine if enough details are provided to determine escrow amounts
 - Adhere to requirements described in the Guide to collect escrow premiums on insurance policies
-



Refer to the following sections in the Guide to complete this exercise:

- Section 31A.2(c)
 - Section 39.1
-



Key terms used in this exercise:

- Difference In Conditions
 - Escrow
-



Documents used in this exercise:

- Invoice
-

Exercise 2: Collecting Escrows, Continued

Case Study 3 An agent has submitted an invoice for a Commercial Package Policy with an invoice balance of \$16,162.83. Additional invoice details show:

- The policy renewal amount is \$16,114.00
 - The fire fee is \$48.83
-

Activity Review the invoice on the next page for this case study to determine if the invoice is for an individual property or for a Blanket policy.



Points to Consider

The following question may provide guidance while you are reviewing or verifying actual insurance-related documents. This question is not required to be answered as part of this exercise, but is included to encourage you to think critically about the documents you are reviewing.

1. Given the information provided on the invoice, are you able to determine if the invoice is for an individual policy or blanket policy?
-

Exercise 2: Collecting Escrows, Continued

		Invoice	
		INVOICE # ACCOUNT #: COMPANY: PRODUCER: EFFECTIVE DATE: 09/30/10 EXPIRATION DATE: 09/30/11 DATE: APRIL 28, 2011	
		Commercial Package	
<input type="checkbox"/> TO:			
<input type="checkbox"/>			
EFF DATE	TRN	DESCRIPTION	AMOUNT
09/30/10	REN	Policy renewal	\$16,114.00
09/30/10	FRA	FIRE FEE	\$48.83
		Invoice Balance	\$16,162.83
PLEASE RETURN ONE COPY WITH YOUR REMITTANCE			\$16,162.83

Sample Invoice – Exercise 2 – Case Study 3

Exercise 2: Collecting Escrows, Continued

Case Study 4 An agent has submitted an invoice for commercial properties itemized by loan number. The Freddie Mac loan number is #00-567800.

Activity Review the invoice on the next page for this case study to determine the escrow amount.



Points to Consider

The following questions may provide guidance while you are reviewing or verifying actual insurance-related documents. These questions are not required to be answered as part of this exercise, but are included to encourage you to think critically about the documents you are reviewing.

1. Is this invoice for an individual policy or blanket policy?
 2. Are you able to identify the allocation per property?
-

Exercise 2: Collecting Escrows, Continued

Invoice

INVOICE # 001234
POLICY #: 00-7966
EFFECTIVE: APRIL 28, 2011

BILL TO:

EFF DATE	DESCRIPTION	AMOUNT
	COMMERCIAL PROPERTY incl. Taxes & Fees	
	Loan # 00-567800	\$5,838.20
	Loan # 00-980478	\$1,677.11
	Loan # 02-675800	\$1,405.62
	Loan # 03-867500	\$527.21
	Loan # 00-567300	\$491.10
	Loan # 00-065780	\$544.32
	Loan # 00-167802	\$464.75
	Loan # 00-469800	\$323.65
TOTAL		\$11,271.96

MAKE ALL CHECKS PAYABLE TO:
PLEASE MAKE SURE THAT ___ IS REFERENCED ON THE CHECK TO ENSURE THE MONEY IS APPLIED TO THE RIGHT ACCOUNT

THANK YOU FOR YOUR BUSINESS!

Sample Invoice – Exercise 2 – Case Study 4

Exercise 2: Collecting Escrows, Continued

Case Study 5 An agent has submitted an invoice for commercial property itemized by loan number. Additional invoice details show:

- Difference In Conditions (DIC) coverage is listed
 - Flood and earthquake coverage are identified
 - The invoice total is \$16,104.50
-

Activity Review the invoice on the next page for this case study to determine the invoice amount for the Freddie Mac property.



Points to Consider

The following question may provide guidance while you are reviewing or verifying actual insurance-related documents. This question is not required to be answered as part of this exercise, but is included to encourage you to think critically about the documents you are reviewing.

1. Given the information provided on the invoice, are you able to determine if the invoice is for an individual policy or blanket policy?
-

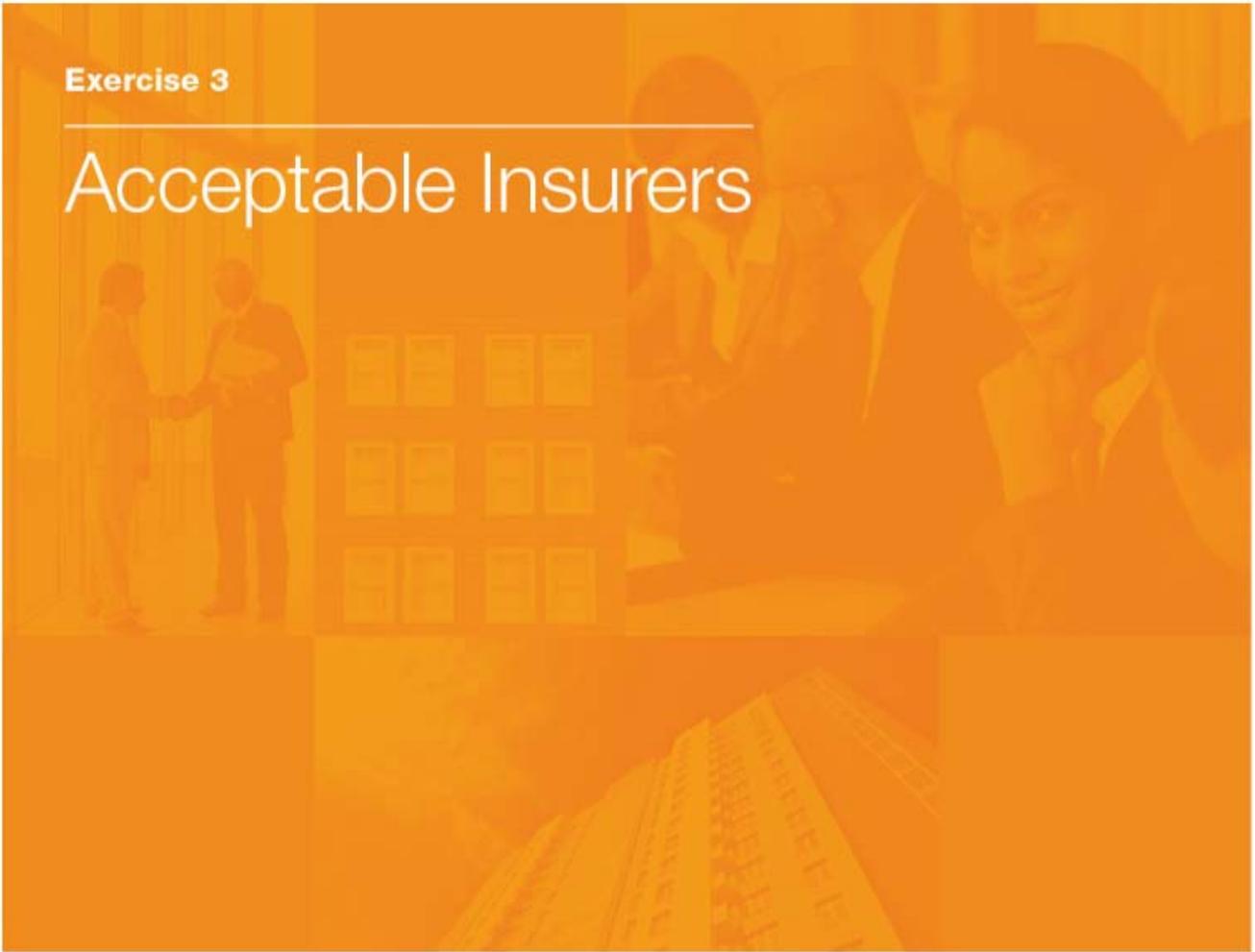
Exercise 2: Collecting Escrows, Continued

Invoice			
INVOICE # 001234 POLICY #: 00-7966 EFFECTIVE: APRIL 20, 2007 INVOICE TOTAL: \$16,104.50			
CUSTOMER:			
EFF DATE	TRANSACTION	DESCRIPTION	AMOUNT
04/12/2001	Renew Policy	Policy	
		Difference in Condition - Renew policy	15,000.00
		Nevada Surplus Lines Tax - Renew policy	542.50
		Nevada Surplus Lines Filing Fee - Renew policy	62.00
		Company Policy Fee - Renew Policy	500.00
		Flood and Earthquake Insurance	
		TOTAL	\$16,104.50
04/20/07			

Sample Invoice – Exercise 2 – Case Study 5

Exercise 3

Acceptable Insurers



Exercise 3: Acceptable Insurers

Overview

Each insurance carrier providing property damage and/or liability insurance, whether admitted or non-admitted, must fall into one of the acceptable categories specified in the Guide. Insurance carriers must also meet the applicable minimum Financial Strength Rating for A.M. Best, and if the aggregate carrier exposure is greater than \$25 million, the insurance carrier must meet additional ratings.

Objectives of This Exercise

At the end of this exercise, you should be able to:

- Refer to insurance carrier rating agency websites to determine insurance carrier ratings
 - Validate insurance carrier rating compliance with carrier rating requirements in the Guide
-



Refer to the following sections in the Guide to complete this exercise:

- Section 31A.3(a)
 - Section 31A.3(b)
 - Section 31B.2(i)
-



Key terms used in this exercise:

- Acceptable Insurers
 - Alternative Insurance Carrier Ratings
 - Layered Insurance Program
 - Aggregate Carrier Exposure
-

Exercise 3: Acceptable Insurers, Continued

Case Study 6 You must determine compliance with the Guide of a layered insurance program.

Activity Review the layered insurance program on the next page to determine if **Lexington Insurance Company** is compliant with the carrier ratings specified in the Guide.



Points to Consider

The following questions may provide guidance while you are reviewing or verifying actual insurance-related documents. These questions are not required to be answered as part of this exercise, but are included to encourage you to think critically about the documents you are reviewing.

1. Is the Aggregate Carrier Exposure amount greater than \$25,000,000?
 2. Does the insurance company meet the S&P carrier rating?
-

Exercise 3: Acceptable Insurers, Continued

Layered Insurance Program		\$100,000,000 in Coverage					Aggregate Carrier Exposure	
Carrier	Layer	S&P	AM Best	Moody's	Fitch	Participation		
Lexington Insurance Co.	\$50,000,000	A+	AXV	NR	A+	80%	\$45,000,000	
Federal Insurance Co.	\$50,000,000	AA	A++XV	Aa2	AA	10%	\$5,000,000	
Arch Insurance Co.	\$50,000,000	A+	AXV	A2	A+	2.50%	\$3,750,000	
Lloyd's of London	\$50,000,000	A-	AXV	NR	A+	2.50%	\$8,750,000	
Aspen Insurance US LTD	\$50,000,000	A	AXV	A2	NR	5%	\$2,500,000	
Lexington Insurance Co.	\$50,000,000 xs \$50,000,000	A+	AXV	NR	A+	10%	\$45,000,000	
Tokio Marine Global LTD	\$50,000,000 xs \$50,000,000	AA	NR-5	NR	NR	5%	\$2,500,000	
Liberty Mutual Fire Insurance	\$50,000,000 xs \$50,000,000	A-	AXV	A2	A-	5%	\$2,500,000	
XL Insurance America, Inc.	\$50,000,000 xs \$50,000,000	A	AXV	NR	A	10%	\$5,000,000	
Arch Insurance Co.	\$50,000,000 xs \$50,000,000	A+	AXV	A2	A+	5%	\$3,750,000	
Zurich American Insurance Co.	\$50,000,000 xs \$50,000,000	AA-	A+XV	NR	A+	10%	\$5,000,000	
Ironshore Specialty Insurance	\$50,000,000 xs \$50,000,000	NR	A-XIII	Baa1	NR	5%	\$250,000	
Hiscox Insurance Co.	\$50,000,000 xs \$50,000,000	A	AXI	NR	A	7.50%	\$3,750,000	
RSUI Indemnity Co.	\$50,000,000 xs \$50,000,000	NR	AXII	A3	NR	5%	\$7,500,000	
Max Bermuda LTD	\$50,000,000 xs \$50,000,000	A-	A-XIII	NR	NR	7.50%	\$3,750,000	
AWAC	\$50,000,000 xs \$50,000,000	A-	AXV	A2	NR	7.50%	\$3,750,000	
Lloyd's of London	\$50,000,000 xs \$50,000,000	A+	AXV	NR	A+	7.50%	\$8,750,000	
Essex Insurance Co.	\$50,000,000 xs \$50,000,000	NR	AXIII	A2	A	5%	\$2,500,000	
RSUI Indemnity Co.	\$50,000,000 xs \$50,000,000	NR	AXII	A3	NR	10%	\$7,500,000	

Layered Insurance Program – Exercise 3 – Case Study 6

Exercise 3: Acceptable Insurers, Continued

Case Study 7 You must determine compliance with the Guide of a layered insurance program.

Activity Review the layered insurance program on the next page to determine if **Ironshore Insurance Company** is compliant according to the criteria specified in the Guide. Refer to the websites of the rating agencies below to determine the carrier rating.

- [Standard & Poor's](http://www.standardandpoors.com/ratings/en/us/) – <http://www.standardandpoors.com/ratings/en/us/>
- [A.M. Best](http://www.ambest.com/ratings/icon/about.asp) - <http://www.ambest.com/ratings/icon/about.asp>
- [Moody's](http://www.moody.com/) - <http://www.moody.com/>
- [Fitch](http://www.fitchratings.com/index_fitchratings.cfm) - http://www.fitchratings.com/index_fitchratings.cfm

Note: A username and password may be required to view ratings on these websites.

Refer to the questions in the points to consider below to assist you with this case study.



Points to Consider

The following questions may provide guidance while you are reviewing or verifying actual insurance-related documents. These questions are not required to be answered as part of this exercise, but are included to encourage you to think critically about the documents you are reviewing.

1. What is the Aggregate Carrier Exposure amount?
 2. Does S&P, Moody's or Fitch rate this carrier?
 3. What is this carrier rating?
 4. Does this insurance carrier qualify for the alternative insurance carrier rating?
-

Exercise 3: Acceptable Insurers, Continued

Layered Insurance Program		\$100,000,000 in Coverage						
Carrier	Layer	S&P	AM Best	Moody's	Fitch	Participation	Agg. Carrier Exposure	
Ironshore Specialty Insurance	\$50,000,000	NR	A-XIII	Baa1	NR	80%	\$45,000,000	
Federal Insurance Co.	\$50,000,000	AA	A++XV	Aa2	AA	10%	\$5,000,000	
Arch Insurance Co.	\$50,000,000	A+	AXV	A2	A+	2.50%	\$3,750,000	
Lloyd's of London	\$50,000,000	A-	AXV	NR	A+	2.50%	\$8,750,000	
Aspen Insurance US LTD	\$50,000,000	A	AXV	A2	NR	5%	\$2,500,000	
Ironshore Specialty Insurance	\$50,000,000	NR	A-XIII	Baa1	NR	80%	\$45,000,000	
Tokio Marine Global LTD	\$50,000,000 xs \$50,000,000	AA	NR-5	NR	NR	5%	\$2,500,000	
Liberty Mutual Fire Insurance	\$50,000,000 xs \$50,000,000	A-	AXV	A2	A-	5%	\$2,500,000	
XL Insurance America, Inc.	\$50,000,000 xs \$50,000,000	A	AXV	NR	A	10%	\$5,000,000	
Arch Insurance Co.	\$50,000,000 xs \$50,000,000	A+	AXV	A2	A+	5%	\$3,750,000	
Zurich American Insurance Co.	\$50,000,000 xs \$50,000,000	AA-	A+XV	NR	A+	10%	\$5,000,000	
Ironshore Specialty Insurance	\$50,000,000 xs \$50,000,000	NR	A-XIII	Baa1	NR	5%	\$2,500,000	
Hiscox Insurance Co.	\$50,000,000 xs \$50,000,000	A	AXI	NR	A	7.50%	\$3,750,000	
RSUI Indemnity Co.	\$50,000,000 xs \$50,000,000	NR	AXII	A3	NR	5%	\$7,500,000	
Max Bermuda LTD	\$50,000,000 xs \$50,000,000	A-	A-XIII	NR	NR	7.50%	\$3,750,000	
AWAC	\$50,000,000 xs \$50,000,000	A-	AXV	A2	NR	7.50%	\$3,750,000	
Lloyd's of London	\$50,000,000 xs \$50,000,000	A+	AXV	NR	A+	7.50%	\$8,750,000	
Essex Insurance Co.	\$50,000,000 xs \$50,000,000	NR	AXIII	A2	A	5%	\$2,500,000	
RSUI Indemnity Co.	\$50,000,000 xs \$50,000,000	NR	AXII	A3	NR	10%	\$7,500,000	

Layered Insurance Program – Exercise 3 – Case Study 7

Exercise 3: Acceptable Insurers, Continued

Case Study 8 You must determine compliance with the Guide of a layered insurance program.

Activity Review the layered insurance program on the next page to determine if **Crusader Insurance Company** is compliant according to the criteria specified in the Guide. Refer to the websites of the rating agencies below to determine the carrier rating.

- [Standard & Poor's \(S&P\)](http://www.standardandpoors.com/ratings/en/us/)
http://www.standardandpoors.com/ratings/en/us/
- [A.M. Best](http://www.ambest.com/ratings/icon/about.asp)
http://www.ambest.com/ratings/icon/about.asp
- [Moody's](http://www.moodys.com/)
http://www.moodys.com/
- [Fitch](http://www.fitchratings.com/index_fitchratings.cfm)
http://www.fitchratings.com/index_fitchratings.cfm

Note: A username and password may be required to view ratings on these websites.

Refer to the questions in the points to consider below to assist you with this case study.



Points to Consider

The following questions may provide guidance while you are reviewing or verifying actual insurance-related documents. These questions are not required to be answered as part of this exercise, but are included to encourage you to think critically about the documents you are reviewing.

1. What is the Aggregate Carrier Exposure amount?
 2. Do S&P and A.M. Best rate this carrier?
 3. Is this carrier related to any other carrier?
 4. What percentage of the total exposure do other carriers that meet the standard insurance carrier rating requirements insure?
 5. Does this insurance carrier qualify for the alternative insurance carrier rating?
-

Exercise 3: Acceptable Insurers

Layered Insurance Program		\$100,000,000 in Coverage					Agg. Carrier Exposure	
Carrier	Layer	S&P	AM Best	Moody's	Fitch	Participation		
Lexington Insurance Co.	\$50,000,000	A+	AXV	NR	A+	80%	\$45,000,000	
Federal Insurance Co.	\$50,000,000	AA	A++XV	Aa2	AA	10%	\$5,000,000	
Arch Insurance Co.	\$50,000,000	A+	AXV	A2	A+	2.50%	\$3,750,000	
Lloyd's of London	\$50,000,000	A+	AXV	NR	A+	2.50%	\$8,750,000	
Aspen Insurance US LTD	\$50,000,000	A	AXV	A2	NR	5%	\$2,500,000	
Lexington Insurance Co.	\$50,000,000 xs \$50,000,000	A+	AXV	NR	A+	10%	\$45,000,000	
Tokio Marine Global LTD	\$50,000,000 xs \$50,000,000	AA	NR-5	NR	NR	5%	\$2,500,000	
Liberty Mutual Fire Insurance	\$50,000,000 xs \$50,000,000	A-	AXV	A2	A-	5%	\$2,500,000	
XL Insurance America, Inc.	\$50,000,000 xs \$50,000,000	A	AXV	NR	A	10%	\$5,000,000	
Arch Insurance Co.	\$50,000,000 xs \$50,000,000	A+	AXV	A2	A+	5%	\$3,750,000	
Zurich American Insurance Co.	\$50,000,000 xs \$50,000,000	AA-	A+XV	NR	A+	10%	\$5,000,000	
Ironshore Specialty Insurance	\$50,000,000 xs \$50,000,000	NR	A-XIII	Baa1	NR	5%	\$2,500,000	
Hiscox Insurance Co.	\$50,000,000 xs \$50,000,000	A	AXI	NR	A	7.50%	\$3,750,000	
RSUI Indemnity Co.	\$50,000,000 xs \$50,000,000	NR	AXII	A3	NR	5%	\$7,500,000	
Crusader Insurance Co.	\$50,000,000 xs \$50,000,000	Bpi	A-VII	NR	NR	22.50%	\$11,250,000	
Essex Insurance Co.	\$50,000,000 xs \$50,000,000	NR	AXIII	A2	A	5%	\$2,500,000	
RSUI Indemnity Co.	\$50,000,000 xs \$50,000,000	NR	AXII	A3	NR	10%	\$7,500,000	

Layered Insurance Program – Exercise 3 – Case Study 8

Exercise 4

Determining Adequate Property Coverage

Exercise 4: Determining Adequate Property Coverage

Overview

All borrowers must maintain adequate property damage insurance coverage. To ensure that borrowers maintain adequate property damage insurance coverage, Seller/Service providers must annually review the estimated Replacement Costs of properties. If the replacement cost estimates have changed, the property damage insurance limits may need to be adjusted.

In this exercise, you will determine if enough detail has been provided on the related document to certify that the property insurance limit is adequate.

Objectives of This Exercise

At the end of this exercise, you should be able to:

- Identify acceptable documents to verify adequate property coverage
 - Refer to the requirements in the Guide to certify adequate property insurance limits
-



Refer to the following sections in the Guide to complete this exercise:

- Section 31A.4(a)
 - Section 31A.4(b)
 - Additional Guidance: 31A.5(b) and 31A.5(c)
-



Key terms used in this exercise:

- Probable Maximum Loss (PML)
-



Acceptable documents to determine adequate property damage coverage include:

- An email from the insurance agent or insurance company
 - Documentation from a contractor (this document is acceptable from a borrower who is a contractor or has a construction company)
 - Marshall & Swift
 - Validation through the calculation of the price per square foot
 - Probable Maximum Loss (PML) report
-

Exercise 4: Determining Adequate Property Coverage, Continued

Other Resources for Documentation

The most common resources to determine the estimated Replacement Cost of a property include:

- The Replacement Cost estimate provided by the insurance company that has underwritten or will underwrite the property damage insurance*
- A qualified commercial real estate appraiser experienced in the market
- A reputable commercial contractor with experience constructing and/or reconstructing properties in the area similar to the property

*Using the estimate provided by the insurance company will help reduce any disagreements about coverage if a claim is filed.

Case Study 9

A borrower has provided an Insurable Value Calculation as proof of Replacement Cost. The borrower's agent also provided a valid ACORD Form 28, Evidence of Commercial Property Insurance.

Activity

Review the document on the next page to determine if it contains the information you need to verify adequate property coverage.



Points to Consider

The following questions may provide guidance while you are reviewing or verifying actual insurance-related documents. These questions are not required to be answered as part of this exercise, but are included to encourage you to think critically about the documents you are reviewing.

1. What questions would you ask to validate this document?
 2. Is this Blanket Insurance coverage?
 3. If Blanket Insurance, is the per occurrence limit of the policy greater than or equal to the largest Replacement Cost exposure covered by the policy limit?
 4. Is the property damage coverage equal to 100% of the Replacement Cost?
 5. What is the date of the document?
 6. Are you able to determine adequate coverage with the information provided?
-

Exercise 4: Determining Adequate Property Coverage, Continued

Lofty Apartments & Townhomes 100 West Street Southington, CT 06082			
Insurable Value			
Insurable Value Calculation			
Base Cost			
<u>Main Structures</u>		<u>Apartment Buildings</u>	
Apartment Buildings	45,808 sq. ft. x	\$49.34 per sq. ft.	\$2,260,167
Elevators	45,808 sq. ft. x	\$0.00 per sq. ft.	\$0
HVAC Adjustment	45,808 sq. ft. x	\$3.85 per sq. ft.	\$176,361
Subtotal Base Cost – Apartment Buildings			\$2,436,528
Other Adjustments and/or Multipliers			
Floor Area/Perimeter			0.947
Story Height			1.000
Current			1.060
Local			1.150
Total Base Cost – Apartment Buildings			\$2,812,711
<u>Additional Structures</u>		<u>Townhouse Buildings</u>	
Townhouse Buildings	29,184 sq. ft. x	\$52.78 per sq. ft.	\$1,540,332
Sprinklers	29,184 sq. ft. x	\$0.00 per sq. ft.	\$0
HVAC Adjustment	29,184 sq. ft. x	\$3.85 per sq. ft.	\$112,358
Subtotal Base Cost – Townhouse Buildings			\$1,652,690
Other Adjustments and/or Multipliers			
Floor Area/Perimeter			0.947
Story Height			1.000
Current			1.060
Local			1.150
Total Base Cost – Townhouse Buildings			\$1,907,854
Total Base Cost All Buildings			\$4,720,565
Exclusions (Excavation, Foundations, Architect's Fee, Miscellaneous)			
Architect's Fee	6.2% of base cost		-\$292,675
Excavation, Site Prep	5.0% of base cost		-\$236,028
Total Exclusions			-\$528,703
Inclusions			
Appliance Package (Multifamily Only)			\$71,100
Patios/Balconies (Multifamily Only)		Included in base cost	
Total Inclusions			\$71,000
Concluded Insurable Value			\$4,262,962
Taken from Marshall Valuation Services			

Insurable Value Calculation – Exercise 4 – Scenario9

Exercise 4: Determining Adequate Property Coverage, Continued

 EVIDENCE OF COMMERCIAL PROPERTY INSURANCE		DATE (MM/DD/YYYY) 07/15/2011																																																																																															
THIS EVIDENCE OF COMMERCIAL PROPERTY INSURANCE IS ISSUED AS A MATTER OF INFORMATION ONLY AND CONFERS NO RIGHTS UPON THE ADDITIONAL INTEREST NAMED BELOW. THIS EVIDENCE DOES NOT AFFIRMATIVELY OR NEGATIVELY AMEND, EXTEND OR ALTER THE COVERAGE AFFORDED BY THE POLICIES BELOW. THIS EVIDENCE OF INSURANCE DOES NOT CONSTITUTE A CONTRACT BETWEEN THE ISSUING INSURER(S), AUTHORIZED REPRESENTATIVE OR PRODUCER, AND THE ADDITIONAL INTEREST.																																																																																																	
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ACORD 28 (2009/12) Page 1 of 2 © 2003-2009 ACORD CORPORATION. All rights reserved. The ACORD name and logo are registered marks of ACORD																																																																																																	

ACORD Form 28- Exercise 4 - Scenario9

Exercise 5

Flood Insurance



Exercise 5: Flood Insurance

Overview

Seller/Service providers must make or obtain a flood zone determination (FZD) for each mortgage 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 a Special Flood Hazard Area (SFHA).

Objectives of This Exercise

At the end of this exercise, you should be able to:

- Review flood insurance to determine compliance with the Guide
-



If there is a lapse in the NFIP's authority, the Borrower must obtain or renew the Flood Insurance from a private carrier.



Refer to the following sections in the Guide to complete this exercise:

- Section 31A.8(b)-31A.8(g)
-



Key terms used in this exercise:

- Flood Zone Determination (FZD)
 - National Flood Insurance Program (NFIP)
 - Special Flood Hazard Area (SFHA)
 - Specific Insurance
-



Documentation required for discontinuation of coverage provided by the Borrower includes:

- A Letter of Map Amendment (LOMA) from FEMA excluding the insurable improvements or the entire property from the SFHA, or
 - A LOMA from FEMA removing the community's SFHA designation, or
 - Following a joint request to FEMA, as provided under Federal law, the Borrower and the Seller/Service provider have obtained a Letter of Determination Review (LODR) concluding that the insurable improvements are not in the SFHA
-

Exercise 5: Flood Insurance, Continued

Case Study 10 A Borrower has a \$1,000,000 limit for flood coverage in Zones A&V on a specific insurance policy for a property located in Dawsonville, GA.

Activity Review the property details below to determine if the flood coverage is compliant.

Subject Property Dawsonville Apartments located in Dawsonville, GA:

- Six, 3-story buildings
- All in SFHA
- UPB is \$14,679,562
- Replacement Cost is \$10,500,000
- Assume the replacement cost of the areas below grade is \$175,000 per building

Note: There are no documents to review in this exercise.



Points to Consider

The following questions may provide guidance while you are reviewing or verifying actual insurance-related documents. These questions are not required to be answered as part of this exercise, but are included to encourage you to think critically about the documents you are reviewing.

1. Is the current coverage for Blanket or specific insurance?
 2. What is the Replacement Cost for this property?
 3. What is the flood coverage limit for this property?
 4. What is the maximum NFIP coverage for this property?
 5. Does the Borrower's coverage amount equal the higher of the maximum amount under NFIP? OR
 6. Does the Borrower's coverage amount equal the sum of the replacement cost below grade plus the Replacement Cost of the bottom two stories above grade?
 7. Will the Borrower need to purchase private insurance?
-

Exercise 5: Flood Insurance, Continued

Case Study 11 Borrower has NFIP coverage of \$250,000 for a property located in Burbank, CA.

Activity Review the property details below to determine if the flood coverage is compliant.

Subject Property Sunnyside Residences located in Burbank, CA:

- Two levels of underground parking
- One, 8-story building
- In an SFHA
- UPB is \$9,860,420
- Replacement Cost is \$7,000,000
- Assume the replacement cost of all areas below grade is \$1,050,000
- Borrower has NIFIP coverage at \$250,000

Note: There are no documents to review in this exercise.



Points to Consider

The following questions may provide guidance while you are reviewing or verifying actual insurance-related documents. These questions are not required to be answered as part of this exercise, but are included to encourage you to think critically about the documents you are reviewing.

1. Is the current coverage for Blanket or specific insurance?
 2. What is the Replacement Cost for this property?
 3. What is the flood coverage limit for this property?
 4. What is the maximum NFIP coverage for this property?
 5. Does the Borrower's coverage amount equal the higher of the maximum amount under NFIP? OR
 6. Does the Borrower's coverage amount equal the sum of the replacement cost below grade plus the Replacement Cost of the bottom two stories above grade?
 7. Does the Borrower currently have coverage other than NFIP?
 8. Will the Borrower need to purchase private insurance?
-

Exercise 6

Evidence of Insurance Documentation

Exercise 6: Evidence of Insurance Documentation

Overview

Seller/Service providers 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. Each document provided must also contain acceptable language according to the Guide.

Objectives of This Exercise

At the end of this exercise, you should be able to:

- Confirm insurance documentation is compliant with requirements specified in the Guide
 - Identify acceptable and unacceptable document language
-



Refer to the following sections in the Guide to complete this exercise:

- Section 31A.19
 - Section 31A.20
 - Section 31A.21
 - Section 31A.22
-



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

- ACORD Form 27 – Evidence of Property Insurance, meeting the requirements in Section 31A.21(b) and 31A.21(c)
 - ACORD Form 28 – Evidence of Commercial Property Insurance, meeting the requirements in Section 31A.21(b) and 31A.21(c)
 - ACORD Form 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
 - Property damage insurance policy including all endorsements, exclusions and any other items referenced in the policy
-

Exercise 6: Evidence of Insurance Documentation, Continued



Each document provided must confirm that the insurance policy has been issued and is in force, and must meet the requirements in Section 31A.21(a) of the Guide.

Case Study 12 The Borrower has provided the following documents as proof of insurance.

- ACORD Form 28 (2009/12)
- ACORD Form 28 (2006/07)
- ACORD Form 25 (2001/08)
- National Union Fire Insurance Company Declarations Page

You must review each document to determine if the language is compliant with the Guide.

Activity

Review each document on the following pages to determine compliance with the requirements specified in the Guide.



Points to Consider

The following questions may provide guidance while you are reviewing or verifying actual insurance-related documents. These questions are not required to be answered as part of this exercise, but are included to encourage you to think critically about the documents you are reviewing.

1. Is the document considered acceptable according to the document descriptions in the Guide?
2. Does the document provided contain acceptable language according to the Guide?

Exercise 6: Evidence of Insurance Documentation, Continued

ACORD® EVIDENCE OF COMMERCIAL PROPERTY INSURANCE		DATE (MM/DD/YYYY)
THIS EVIDENCE OF COMMERCIAL PROPERTY INSURANCE IS ISSUED AS A MATTER OF INFORMATION ONLY AND CONFERS NO RIGHTS UPON THE ADDITIONAL INTEREST NAMED BELOW. THIS EVIDENCE DOES NOT AFFIRMATIVELY OR NEGATIVELY AMEND, EXTEND OR ALTER THE COVERAGE AFFORDED BY THE POLICIES BELOW. THIS EVIDENCE OF INSURANCE DOES NOT CONSTITUTE A CONTRACT BETWEEN THE ISSUING INSURER(S), AUTHORIZED REPRESENTATIVE OR PRODUCER, AND THE ADDITIONAL INTEREST.		
PRODUCER NAME, CONTACT PERSON AND ADDRESS PHONE (A/C, No., Ext.): FAX (A/C, No.): E-MAIL ADDRESS: CODE: SUB CODE: AGENCY CUSTOMER ID #: NAMED INSURED AND ADDRESS	COMPANY NAME AND ADDRESS NAIC NO: IF MULTIPLE COMPANIES, COMPLETE SEPARATE FORM FOR EACH POLICY TYPE LOAN NUMBER POLICY NUMBER EFFECTIVE DATE EXPIRATION DATE <input type="checkbox"/> CONTINUED UNTIL TERMINATED IF CHECKED	
ADDITIONAL NAMED INSURED(S)	THIS REPLACES PRIOR EVIDENCE DATED:	
PROPERTY INFORMATION (Use REMARKS on page 2, if more space is required) <input type="checkbox"/> BUILDING OR <input type="checkbox"/> BUSINESS PERSONAL PROPERTY LOCATION/DESCRIPTION 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. LIMITS SHOWN MAY HAVE BEEN REDUCED BY PAID CLAIMS.		
COVERAGE INFORMATION PERILS INSURED BASIC BROAD SPECIAL		
COMMERCIAL PROPERTY COVERAGE AMOUNT OF INSURANCE: \$		DED:
<input type="checkbox"/> BUSINESS INCOME <input type="checkbox"/> RENTAL VALUE	YES NO N/A	IF YES, LIMIT: Actual Loss Sustained; # of months:
BLANKET COVERAGE		If YES, indicate value(s) reported on property identified above: \$
TERRORISM COVERAGE		Attach Disclosure Notice / DEC
IS THERE A TERRORISM-SPECIFIC EXCLUSION?		
IS DOMESTIC TERRORISM EXCLUDED?		
LIMITED FUNGUS COVERAGE		IF YES, LIMIT: DED:
FUNGUS EXCLUSION (if "YES", specify organization's form used)		
REPLACEMENT COST		
AGREED VALUE		
COINSURANCE		IF YES, %
EQUIPMENT BREAKDOWN (if Applicable)		IF YES, LIMIT: DED:
ORDINANCE OR LAW - Coverage for loss to undamaged portion of bldg		
- Demolition Costs		IF YES, LIMIT: DED:
- Incr. Cost of Construction		IF YES, LIMIT: DED:
EARTH MOVEMENT (if Applicable)		IF YES, LIMIT: DED:
FLOOD (if Applicable)		IF YES, LIMIT: DED:
WIND / HAIL (if Subject to Different Provisions)		IF YES, LIMIT: DED:
PERMISSION TO WAIVE SUBROGATION IN FAVOR OF MORTGAGE HOLDER PRIOR TO LOSS		
CANCELLATION SHOULD ANY OF THE ABOVE DESCRIBED POLICIES BE CANCELLED BEFORE THE EXPIRATION DATE THEREOF, NOTICE WILL BE DELIVERED IN ACCORDANCE WITH THE POLICY PROVISIONS.		
ADDITIONAL INTEREST		
<input type="checkbox"/> MORTGAGEE <input type="checkbox"/> LENDERS LOSS PAYABLE NAME AND ADDRESS	CONTRACT OF SALE	LENDER SERVICING AGENT NAME AND ADDRESS AUTHORIZED REPRESENTATIVE
AGORD 28 (2009/12) Page 1 of 2 © 2003-2009 ACORD CORPORATION. All rights reserved. The ACORD name and logo are registered marks of ACORD		

ACORD 28 (2009/12) – Exercise 6 – Case Study 12

Exercise 6: Evidence of Insurance Documentation, Continued

EVIDENCE OF COMMERCIAL PROPERTY INSURANCE		DATE (MM/DD/YYYY)																																																																																																																		
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ACORD 28 (2006/07) Page 1 of 2 © ACORD CORPORATION 2003-2006. All rights reserved. The ACORD name and logo are registered marks of ACORD																																																																																																																				

ACORD 28 (2006/07) – Exercise 6 – Case Study 12

Exercise 6: Evidence of Insurance Documentation, Continued

<b style="font-size: 1.2em;">CERTIFICATE OF LIABILITY INSURANCE		DATE (MM/DD/YYYY)															
PRODUCER		THIS CERTIFICATION IS ISSUED AS A MATTER OF INFORMATION ONLY AND CONFERS NO RIGHTS UPON THE CERTIFICATE HOLDER. THIS CERTIFICATE DOES NOT AMEND, EXTEND OR ALTER THE COVERAGE AFFORDED BY THE POLICIES BELOW.															
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CERTIFICATE HOLDER		CANCELLATION															
City of Los Angeles Office of the City Administrative Officer, Risk Management 200 North Main Street, Room 1240 Los Angeles, CA 90012		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 CERTIFICATE HOLDER NAMED TO THE LEFT, BUT FAILURE TO DO SO SHALL IMPOSE NO OBLIGATION OR LIABILITY OF ANY KIND UPON THE INSURER, ITS AGENTS OR REPRESENTATIVES. AUTHORIZED REPRESENTATIVE															

ACORD 25 (2001/08)

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ACORD 25 (2001/08) – Exercise 6 – Case Study 12

Exercise 6: Evidence of Insurance Documentation, Continued

National Union Fire Insurance Company

Of Pittsburgh, PA
(A capital stock Company)

Agency Name and Address:

Executive Office
70 Pine Street
New York, NY 10270
(212) 770-7000

Policy Number _____

Renewal Of _____

DECLARATIONS PAGE

Item 1. Named Insured and P.O. Address

Item 2. Policy Period:
From 09/30/2010 to 09/30/2011 12:01 A.M Standard Time at Location of designated premises.

Item 3. The Named Insured is:
 Individual Partnership Corporation Joint Venture Other

Item 4. Designated Premises Occupancy of Premises Type of Construction
 21 Units Rental Apartment Building Joisted Masonry

Item 5.
 INSURANCE IS PROVIDED WITH RESPECT TO THE DESIGNATED PREMISES AND WITH RESPECT TO THOSE COVERAGES AND KINDS OF PROPERTY FOR WHICH A SPECIFIC LIMIT OF LIABILITY IS SHOWN, SUBJECT TO ALL OF THE TERMS OF THIS POLICY INCLUDING FORMS AND ENDORSEMENTS MADE A PART HEREOF.

**SECTION I
PROPERTY COVERAGE-**

SPECIAL FORM

LOC #	BLDG #	BUILDING LIMIT	COINS.	PERS. PROPERTY LIMIT	COINS.	Business Income Including Rental Value LIMIT	COINS.	ADDL LIVING EXP LIMIT	COINS.
	1	\$1,535,000	Agreed Amount Replacement Cost	\$0	N/A	\$150,000	100%	\$0	N/A

DEDUCTIBLE EACH OCCURRENCE AGGR. EACH OCCURRENCE
 \$5,000

EXCEPT FOR: Water Damage Deductible: \$5,000 each occurrence

**SECTION II
LIABILITY COVERAGE**

LOC #	BLDG #	Bodily Injury and Property Combined Single Limit each occurrence	Aggregate	Premises Medical Payments each person	each accident
84674	1	\$2,000,000	\$4,000,000	\$5,000	\$25,000

Additional Coverage (specify): Personal and Advertising Injury Included

**SECTION III
CRIME COVERAGE**

LOC #	BLDG#	LIMIT

Item 6. The Total Advance Premium is: \$16,114.00 NYFIF: \$48.83
 Non Auditable unless so indicated

IN CONSIDERATION OF THE PREMIUM, INSURANCE IS PROVIDED THE NAMED INSURED WITH RESPECT TO THE DESIGNATED PREMISES SHOWN IN ITEM 4 ABOVE AND WITH RESPECT TO THOSE COVERAGES AND KINDS OF PROPERTY FOR WHICH A SPECIFIC LIMIT IS SHOWN, SUBJECT TO ALL OF THE TERMS OF THIS POLICY INCLUDING FORMS AND ENDORSEMENTS MADE A PART HEROF.

THIS DECLARATIONS PAGE WITH POLICY JACKET, AND FORMS AND ENDORSEMENTS, IF ANY, ISSUED TO FORM A PART THEREOF, COMPLETES THE ABOVE NUMBERED POLICY.

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National Union Fire Insurance Company Declarations Page— Exercise 6 – Case Study 12

Key Points to Remember

The key points listed in this section highlight some of the key insurance changes effective July 1, 2011. This list does not include all changes. Please refer to the Guide for details on all insurance requirements and changes.

Blanket Insurance

- Blanket Insurance provides one “per occurrence” (per peril) limit of coverage for two or more properties.
- Specific Insurance provides separate property insurance limits that apply to each type of covered property interest at each covered location.
- Seller/Servicers must certify that the per occurrence limit must be no less than the largest Replacement Cost exposure covered by the limit of the Blanket Insurance policy
- See Section 31A.5(b) and 31A.5(c) for additional guidance on Blanket Insurance

Escrow Requirements

- Seller/Servicers must collect escrows to pay premiums on all required insurance policies, including Blanket Insurance policies, master programs, and liability insurance policies covering multiple properties and NFIP flood insurance, if required.

Acceptable Insurers

- Alternative insurance carrier ratings may be acceptable for carriers providing coverage for 20% or less of the total exposure under a Blanket Insurance policy, master program, or layered insurance program, but only if the remaining 80% of the carriers comply with the standard insurance carrier ratings and size requirements.

Determining Adequate Property Coverage

- Seller/Servicers must on an annual basis, review the estimated Replacement Cost of the property.
- Seller/Servicers must on an annual basis for Mortgages with an Origination Date on or after July 1, 2011, certify that the insurance meets Freddie Mac’s requirements.

Flood Insurance

- If there is a lapse in the NFIP’s authority, the Borrower must obtain or renew the required flood insurance from a private carrier.
- Seller/Servicers must ensure flood insurance is in force for any building on a property (habitable or not) located in an area designated by FEMA as a SFHA, and is in a community participating in NFIP.

Evidence of Insurance Documentation

- Examples of acceptable and unacceptable language is provided in Section 31A.20 of the Guide
-

Other Key Policy Changes

Determining Adequate Property Coverage

Seller/Service providers must:

- Review the estimated Replacement Cost of the property
 - Annually certify that the insurance meets Freddie Mac's requirements, and:
 - For Blanket Insurance, the per occurrence limit of the Blanket Insurance policy is no less than the largest Replacement Cost exposure covered by the limit of the Blanket Insurance policy
 - For specific insurance, the property damage coverage is equal to 100% of the Replacement Cost
 - The certification applies only to mortgages with an Origination Date on or after July 1, 2011
-

Earthquake Insurance

- A Site Specific Seismic Report (SSSR) is required for each property in a Seismic Risk Zone 3 or 4
 - Required for Risk Zones 3 or 4 if the Probable Maximum Loss (PML) is greater than 20% and less than or equal to 40%
 - Requirements are in Section 31A.9 of the Guide
-

Terrorism Insurance

- Is now required for all Mortgages with an Origination Date on or after July 1, 2011
 - Must meet all of the requirements in Chapter 31A for property damage insurance, business income/rental value insurance, and liability insurance
 - Requirements are in Section 31A.13 of the Guide
-

Other Key Policy Changes, Continued

Business Income/Rental Value Insurance

- No longer referred to in the Guide as “Business Interruption/Rent Loss Coverage”
 - The minimum number of months of anticipated gross income for properties with five or more stories above grade or with a UPB of \$50 million greater has been increased from 12 months to 18 months
 - The minimum extended period of indemnity for properties with five or more stories above grade or with a UPB of \$25 million or greater is 90 days
 - The extra expense insurance requirement has been eliminated
-

Cancellation Clause Requirements

Effective January 31, 2011:

- Cancellation Clause requirements apply to property damage policies and do not apply to liability insurance policies
 - Seller/Service providers must comply with state law regarding cancellations
 - Changes will enable Seller/Service providers to accept an ACORD 25 that does not contain a cancellation notice provision to the mortgage
-

Appendix A

Answer Key



Answer Key

This answer key provides the solutions to the Case Studies for each exercise in this workbook.

Exercise 1: Blanket Insurance

Case Study 1

The Borrower provided a complete Statement of Values (SOV) with all of the required data except for the number of stories. The highest Replacement Cost of \$42,387,000 is for the property in Mount Airy, NC, which is below the \$50,000,000 loss limit. However, the Blanket Insurance also provides Business Income/Rental value coverage. Section 31A.5(a) also requires the following:

If the limit of the Blanket Insurance policy provides coverage for Business Income/Rental Value insurance, Boiler and Machinery insurance and Ordinance or 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 requiring the greatest coverage.

To comply with this requirement, you must also check the requirements in Section 31A.6 of the Guide: Business Income/Rental Value Insurance. (For this exercise, assume the property in Mount Airy, NC complies with Section 31A.6 of the Guide).

The total of the Replacement Cost coverage and the Business Income coverage for the property in Mount Airy is \$49,777,500 (\$42,387,000 + \$7,390,500), which is less than the \$50,000,000 limit. So the property and the Business Income limits comply with the policy.

There is a concentration of properties in Montgomery, AL that totals \$25,318,139, which is below the \$50,000,000 loss limit and below the 25% concentration guidance in Section 31A.5(b) of the Guide.

The subject property is not located in a catastrophic prone area.

The Replacement Cost of the largest asset and the Business Income insurance is covered by the loss limit, so no waiver is required from Freddie Mac. However, the \$50,000,000 limit does not meet the additional guidance recommendation that at least 40% of the Replacement Cost of all properties covered by the Blanket Insurance be covered by the Blanket Limit (The Replacement Cost of all properties covered by the policy is \$180,024,3939, 40% coverage would be a blanket limit of \$72,009,736. The current \$50,000,000 limit only covers 27.7% of Replacement Costs of all covered properties).

The Seller/Service should review and follow all of the remaining guidance in Section 31A.5 of the Guide to determine if the \$50,000,000 limit is acceptable. This may include working with an outside insurance consultant and/or meeting with the Borrower's insurance consultant.

Answer Key, Continued

Exercise 1: Blanket Insurance, Continued

Case Study 2

According to the Guide, the Borrower must carry an amount at least equal to the sum of the maximum flood insurance available from the National Flood Insurance Program (NFIP). There are 17 residential properties, each with a Replacement Cost greater than \$250,000. Therefore the sum of the maximum available through the NFIP is \$4,250,000, which is more than the coverage amount being provided.

Additionally, the Replacement Costs are listed by state, which shows significant exposure in certain geographic areas. A flood in North Carolina should not have any impact on any of the other properties; however, the coverage amount is also the most the carrier will pay in one policy term. As a result, this limit could be easily exhausted very early on in the policy year.

Exercise 2: Collecting Escrows

Case Study 3

Using the invoice alone, the Seller/Servicer cannot determine if this invoice is for an individual property or for a Blanket Insurance policy.

If it is for an individual property, the Seller/Servicer must collect 1/12th of the full amount of the premium with each payment of principal and interest.

If the premium is for a Blanket Insurance policy, then the Seller/Servicer will need to:

1. Escrow for the premium allocation for this property obtained from the Borrower's insurance agent for the individual property secured by the Freddie Mac Mortgage; or
 2. Escrow for 1/12th of the annual premium required to purchase a Specific Insurance policy on the individual property; or
 3. Escrow for the full amount of the annual premium required to purchase a Specific Insurance policy on the individual property
-

Case Study 4

This coverage is provided on a Blanket Insurance policy and clearly shows the allocation per property. The invoice indicates that coverage is for commercial property broken down by loan number. The allocation for the Freddie Mac loan #00-567800 is \$486.52 (\$5,838.20 / 12) per month.

Answer Key, Continued

Exercise 2: Collecting Escrows, Continued

Case Study 5

Using the invoice alone, the Seller/Servicer cannot determine if this invoice is for an individual property or for a Blanket Insurance policy.

Once determined, the Seller/Servicer will need to ensure that both Flood and Earthquake Insurance are required for the property secured by a Freddie Mac Mortgage. If neither is required, then this invoice should not be considered in the escrow determination. If both are required, and the invoice is for a Blanket Insurance policy, then the Seller/Servicer will need to contact the agent to get the allocation for the individual property secured by the Freddie Mac Mortgage.

If only one coverage (flood or earthquake) is required, then the Seller/Servicer will also need to get the allocation of premium by peril. If the policy provides coverage for one specific property only and both flood and earthquake coverage is required, then the full amount needs to be considered for escrow. If only one is required, then the Seller/Servicer will need to contact the agent for the allocation of premium by peril. It is also important to note that this is Difference In Conditions (DIC) coverage, so it needs to be added to the property premium amount (not shown on this invoice) to determine the full amount needed for escrow.

Exercise 3: Acceptable Insurers

Case Study 6

Lexington meets the S&P rating requirement and is compliant.

In this example the aggregate carrier exposure for Lexington is greater than \$25 million so they will also require the minimum rating from one of the following: Fitch, S&P or Moody's. Both S&P and Fitch rate Lexington with an A+ rating which exceeds the minimum A- rating.

Case Study 7

Ironshore is not compliant.

Ironshore meets the AM Best requirement; however, their exposure is greater than \$25 million so they must also meet an acceptable S&P, Fitch or Moody's rating. S&P and Fitch do not rate Ironshore. Moody's rates them at Baa, which falls short of the A3 requirement. Additionally, Ironshore makes up 45% of the total exposure, and does not qualify for the alternative insurance carrier rating.

Answer Key, Continued

Exercise 3: Acceptable Insurers, Continued

Case Study 8

Crusader's exposure is greater than \$5 million so this carrier needs to be rated at an A- VIII from AM Best. However, this carrier is not related to any other carrier and it is only 11.25% of the total exposure. Carriers that meet the standard insurance carrier rating requirements insure at least 80% of the total exposure. Therefore this carrier meets the alternative insurance carrier rating requirement of an A.M. Best A- and VII.

Exercise 4: Determining Adequate Property Coverage

Case Study 9

If the Insurable Value Calculation were the only document that the Seller/Service could get, it would be acceptable and would need to be retained in the Mortgage File along with the demonstrated efforts of trying to get the entire appraisal to determine the age of the document provided.

Other acceptable forms of documentation include:

- An email from the insurance agent
- An email from the insurance company
- Documentation from a Contractor (acceptable from borrower if borrower is a contractor or has a construction company)
- Marshall & Swift
- Validation through the calculation of the price per square foot
- PML

Other steps the Seller/Service could do:

- Confirm the age of the document with the borrower
- See if the borrower has a complete and current appraisal
- Use other resources the Seller/Service deems reliable

The ACORD Evidence of Commercial Property Insurance indicates that the policy does not provide blanket coverage, so the coverage is on a Specific Insurance policy. Note that the property damage coverage (\$3,821,697; replacement cost) is not equal to the replacement cost value represented on the Insurable Value Calculation document (\$4,262,962), so the policy does not appear to provide 100% Replacement Cost coverage. Since the values are close, it is worth working with the borrower and their agent or broker to clarify the source of the discrepancy and perhaps uncover errors or request that the borrower increase its coverage limits.

Answer Key, Continued

Exercise 5: Flood Insurance

Case Study 10

Not Compliant

For each building located in a Special Flood Hazard Area (SFHA), Flood Insurance coverage must at a minimum, equal the higher of:

1. The maximum coverage amount under NFIP or
2. The sum of the replacement cost of all areas below grade plus the Replacement Cost of the bottom two stories above grade
 - The maximum coverage from NFIP = \$1,500,000 ($\$250,000 \times 6$)
 - The Replacement Cost of the bottom two stories above grade = \$7,000,000 ($\$10,500,000 / 3 = \$3,500,000 \times 2 = \$7,000,000$)
 - The Replacement Cost of the areas below grade is \$1,050,000
 - Total Flood Insurance required is \$8,050,000 ($\$7,000,000 + \$1,050,000$)

The Borrower will need Flood Insurance limits equal to the higher of the maximum coverage under NFIP (\$1,500,000) or the sum of the Replacement Cost of all areas below grade plus the Replacement Cost of the bottom two stories above grade (\$8,050,000). The Borrower may obtain the coverage from both NFIP and private Flood Insurance, or just private Flood Insurance.

Exercise 5: Flood Insurance, Continued

Case Study 11

Not Compliant

For each building located in a SFHA, Flood Insurance coverage must at a minimum, equal the higher of:

1. The maximum amount under NFIP or
2. The sum of the replacement cost below grade plus the Replacement Cost of the bottom two stories above grade.
 - The maximum NFIP = \$250,000
 - The replacement cost below grade (\$1,050,000) + the bottom two stories above grade (\$1,750,000) = \$2,800,000

The Borrower will need the higher of the two which is the replacement cost below grade + two stories. The Borrower will need to purchase private insurance in addition to the NFIP for \$2,550,000, or private flood insurance for \$2,800,000.

Answer Key, Continued

Exercise 6: Evidence of Insurance Documentation

Case Study 12

ACCORD Form 28 (2009/12)

- Compliant – See Section 31A.20(a): Acceptable evidence of property insurance, including private flood insurance (07/01/11) of the Guide.

ACCORD Form 28 (2006/07)

- Not compliant - The word “endeavor” is included in the Cancellation clause of this form. See Section 31A.21(c): Unacceptable language on ACCORD 27 and 28 (07/01/11) of the Guide.

ACCORD Form 25 (2001/08)

- Compliant - Even though the form has the “endeavor” language, the Guide only address proof of property and not liability.

National Union Fire Insurance Company Declarations Page

- Compliant
-

Appendix B

Additional Resources



Additional Resources

Insurance Guide Bulletin Cover Letter

Click the link below or enter the URL into your Browser address bar to read an overview of the insurance changes in the Guide that will be effective July 1, 2011.

- <http://www.allregs.com/ao/main.aspx?did2=f53c6d86b74549039186ecc034e5ffe7>

AllRegs

Click the link below or enter the URL into your Browser address bar to access the Insurance Guide Bulletin for the Freddie Mac Multifamily Seller/Service Guide.

- <http://www.allregs.com/ao/Main.aspx>

Rating Agencies

- [Standard & Poor's](http://www.standardandpoors.com) – <http://www.standardandpoors.com>
 - [A.M. Best](http://www.ambest.com/ratings/icon/about.asp) - <http://www.ambest.com/ratings/icon/about.asp>
 - [Moody's](http://www.moody's.com) - <http://www.moody's.com>
 - [Fitch](http://www.fitchratings.com) - <http://www.fitchratings.com>
-

Glossary of Terms

This Glossary of Terms defines words used in the exercises for the Multifamily Insurance Self Study Workbook. This Glossary of Terms does not include all insurance-related words and does not include or define all words found in the Multifamily Seller/Service Guide.

Alternative Rating

Lower A.M. Best ratings and no minimum rating agency rating may be acceptable if there are more than two unrelated insurance carriers providing insurance on one more properties through:

- Blanket Insurance
- Master program
- Layered insurance program

Blanket Insurance

A policy that provides one “per occurrence” (per peril) limit of coverage for two or more properties.

Capacity

Insurance capacity is the amount of coverage that an insurance company is allowed to provide based on their filing with an insurance regulatory body. If, for a variety of reasons, a single insurance company cannot provide enough capacity to insure a risk, a layered insurance program may be put together. Each layer represents a specific amount of coverage.

Commercial General Liability (CGL)

A standard insurance policy issued to business organizations to protect them against liability claims for bodily injury and property damage arising out of premises, operations, products, and completed operations; and advertising and personal injury liability. Freddie Mac does not accept liability policies written on a claims-made basis (except some Senior Housing Mortgages). At a minimum, the Borrower must maintain a CGL policy for:

- \$1 million per occurrence and
- \$2 million in the annual aggregate

Difference In Conditions (DIC)

An all risks property insurance policy that is purchased in addition to a commercial property policy to obtain coverage for perils not insured against in the commercial property policy (usually flood and earthquake).

Glossary of Terms, Continued

Flood Zone Determination (FZD)

Determines whether any of the buildings (including each insurable improvement, whether habitable or not) on the property are located in a SFHA.

Layered Insurance Program

A program of insurance coverage using the excess of loss approach. Layered programs involve a series of insurers writing coverage, each one in excess of lower limits written by other insurers. See [Capacity](#).

National Flood Insurance Program (NFIP)

The National Flood Insurance Program makes Federally backed flood insurance available to homeowners, renters, and business owners in participating NFIP communities. See [FEMA](#) for more information.

Probable Maximum Loss (PML)

Estimates the probability that an earthquake has a 10 percent chance of occurring within the next 50 years out of an overall 475-year return period. The PML represents the amount of damage to the property's improvements, and is stated as a percentage of the current Replacement Cost of those improvements.

Replacement Cost

The cost to reconstruct a property

- Of an equal number of units
- With equal quality of building materials
- With equal utility
- That would be acceptable to the typical investor and tenant in the market in which the property is located

Site Specific Seismic Report (SSSR)

A property-level analysis that uses modeling techniques to assess the risk to a property from earthquakes or other seismic events.

Self-Insured Retention (SIR)

This term, when used in the Guide, 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.

Special Flood Hazard Area (SFHA)

The land area covered by the floodwaters of the base flood is the Special Flood Hazard Area (SFHA) on NFIP maps. The SFHA is the area where the NFIP's floodplain management regulations must be enforced and the area where the mandatory purchase of flood insurance applies. See [FEMA](#) for more information.

Glossary of Terms, Continued

Specific Insurance

Specific Insurance provides separate property insurance limits that apply to each type of covered property interest (building, personal property, business income, etc.) at each covered location.

Statement of Values (SOV)

A statement signed by an insured or applicant that attests to the value of real life and/or other property to be covered under an insurance policy. This is typically used for policies that provide blanket coverage.

Total Insurable Value (TIV)

A property insurance term referring to the sum of full value of the insured's covered property, business income values, and any other covered property interests.

