Multifamily Mortgage Business Lender Letter 14-04

March 26, 2014

To: Multifamily Lenders

From: Rob Walton, Vice President for Equity and Special Asset Management, Multifamily Mortgage Business

Subject: Lender Letter 14-04 | Guidance Regarding the Minimum Required Flood Insurance for Multifamily Mortgage Loans

HIGHLIGHTS

Fannie Mae provides guidance for Servicers regarding the minimum required Flood Insurance for Multifamily Mortgage Loans in light of the NFIP’s increase of maximum coverage from $250,000 to $500,000.

Introduction

The National Flood Insurance Program (“NFIP”) will begin offering a higher maximum building property coverage amount as of June 1, 2014. As such, Multifamily is reminding each Servicer of its requirements for the required minimum Flood Insurance Coverage as set forth in the Multifamily Selling and Servicing Guide (“the Guide”), Part IIIA, Section 322.03.C. - Catastrophic Risk Insurance Minimum Requirements; Flood Minimum Requirement. There are no changes to Fannie Mae’s Flood Insurance Guide requirements.

The current requirements state that the Minimum Amount of Coverage is 100% of replacement cost of improvements located in a special flood hazard area (“SFHA”). If the insurance coverage available under the NFIP is not sufficient to meet the requirements, then the Borrower must obtain Excess Flood or Difference in Condition (“DIC”) insurance to provide the difference up to the full replacement cost of the Property, including Business Income and Rental Value coverage.

Effective June 1, 2014, the NFIP will begin offering building property coverage, which will help provide a Borrower with more protection in the event a casualty should occur. This change will increase the maximum building coverage limit from $250,000 to $500,000 for Standard Flood Insurance Policies on multifamily (Other Residential) buildings, containing 5 or more residential units.

Mortgage Loans with Property Improvements located in a SFHA, with flood insurance coverage that fully complies with Fannie Mae guidelines, are unaffected by this NFIP change. However, Borrowers may find a cost benefit in increasing their NFIP coverage to the maximum.

Mortgage Loans with Property Improvements located in a SFHA, with a current Fannie Mae or Lender delegated approved waiver of DIC coverage must increase their NFIP coverage if the replacement value of any
building requiring flood insurance exceeds $250,000. If the building replacement cost is $500,000 or greater, then, NFIP coverage must be increased to $500,000. If the building replacement cost is between $250,000 and $500,000, then the NFIP coverage must be increased to the applicable replacement cost value.

Under the Guide, Lenders have the delegated authority to waive compliance by Borrowers with the Excess Flood or DIC coverage under certain conditions. The Guide also states that **the Borrower must secure an Excess Flood insurance limit that is reasonable given the exposure subject to the Lender's discretion.**

If an increase in NFIP coverage is required, the increased coverage must be in place upon policy renewal for policies renewing June 1, 2014 or later. For policies renewing prior to June 1, 2014, the increased coverage must be obtained on the subsequent policy renewal (the 2015 renewal).

Any request for waivers from Fannie Mae must include a thorough analysis of the risk, a cost/benefit analysis of the coverage available, actual insurance quotes and a recommendation from the Lender. For new Mortgage Loans, waivers must be requested through Deal Management. For existing Mortgage Loans, waiver requests must be submitted to Drawer_insurance@FannieMae.com.

**Contact Us**

If you have any questions regarding this Lender Letter, please contact either the Insurance Drawer at drawer_insurance@fanniemae.com or Jennifer Clements at (202) 752-5988.