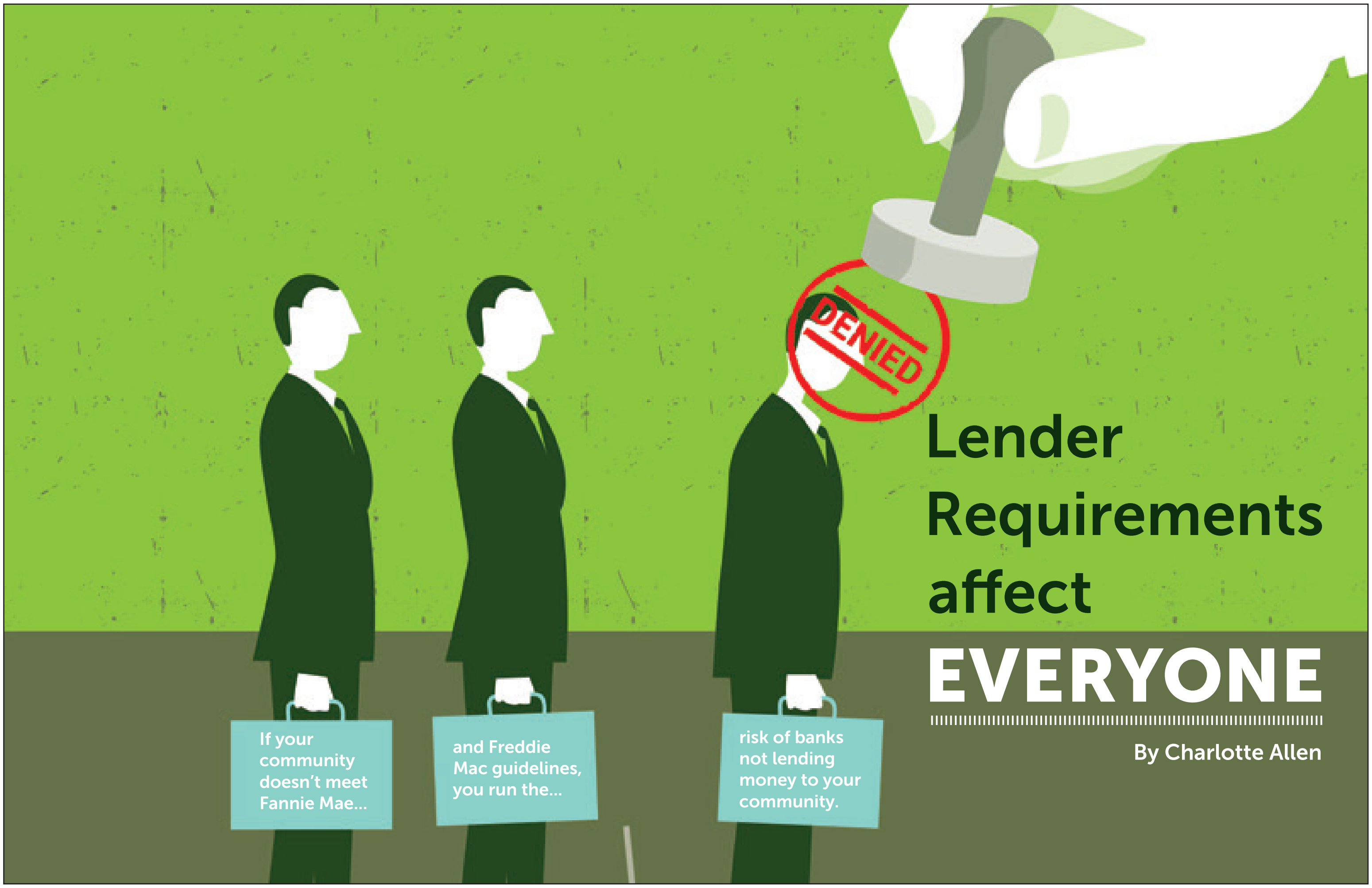
Published in: ECHO Journal
August 2015




# Lender Requirements affect EVERYONE

By Charlotte Allen

**Lender requirements affect everyone.** If your community doesn't meet Fannie Mae and Freddie Mac guidelines, you run the risk of banks not lending money for your community. If your community doesn't meet lender guidelines, sales will not happen, refinances will be denied, assessments won't be collected and properties will be left vacant. An association that does not meet mortgage requirements may very well be in violation of governing documents which means your board is in jeopardy too.

## The best solution to this increasing conflict is to be proactive.

Ask your insurance agent to explain lender requirements and advise if your association is meeting these requirements currently. If you are not meeting the standard, work toward doing so as soon as possible. This way you will be well prepared and informed for the next purchase or refinance.

## What are some of these requirements?

According to Announcement SEL-2013-08, Fannie Mae will no longer allow master or blanket insurance policies that include multiple unaffiliated properties in a single policy. Even prior to Fannie Mae's announcement, these types of policies were often ill-advised as sharing limits and a named insured with other properties may very well put your property at risk of insufficient coverage and "dinged" financially for another property's claim experience. So although lender requirements have become more stringent, the bright side is, they are forcing associations to maintain a more suitable standard meant to keep properties well insured.

## Fannie Mae's Selling Guide B7-3-03 requires that a homeowners association be protected by the full insurable replacement cost of the entire project.

There are a few ways to meet this standard. A policy can contain either a Guaranteed Replacement Cost endorsement, offer no coinsurance (or coinsurance waived), or have an Agreed Value clause. If the association's policy contains none of these things, the value or limit of coverage simply has to be an accurate replacement cost for the entire project. Insurance agents can provide proof of this by offering lenders a completed valuation cost estimate.

## Fannie Mae now reviews crime coverage and requires the limit of insurance be equal to the maximum limit of association funds at any given time.

This means agents and communities need to stay aware of fluctuation in funds. Proactive agents will touch base at least yearly, to determine if existing crime limits meet the association's needs. If you find yourself in need of a change in your crime limit, contact your agent for a mid-term adjustment. Even large increases are often a very minimal cost and will save you the headache of having to change a policy days or even minutes before a loan is anticipated to close.

## Associations located in mandatory flood zones (A or V) must maintain flood insurance coverage.

This is a given however Fannie Mae now requires that the flood coverage limit be either full insurable replacement cost value or the NFIP maximum (which for condominiums is $250,000 per unit). If the association's flood insurance is insufficient the lender can and will force place supplemental coverage at the owners' expense. Fannie Mae guidelines also require that flood deductibles not exceed $25,000 per building.

## The key is to be preemptive. Know all the requirements of Fannie Mae or better yet, utilize an agent who does. Determine you are in compliance well before a loan funds.

The aforementioned requirements are an extremely condensed variety of loan requirements. For more details on all the Fannie Mae guidelines visit https://www.fanniemae.com/singlefamily/project-eligibility. E

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*Charlotte Allen is a licensed insurance broker with Socher Insurance Agency. For the past ten years she has successfully aided in acquiring and retaining insurance for thousands of common interest developments throughout California.*