

Compliance issues with Fannie Mae

With community association property deductibles on the rise, it's becoming problematic from a lending perspective. Loans that are supported by Fannie Mae and Freddie Mac have requirements for community association, and one of those is the maximum amount of the association's property deductible. The specific language in the requirement states that the deductible cannot be more than 5% of the total insurable value. Some associations that have been forced to have higher deductibles such as \$50,000 or \$100,000 per occurrence can still be compliant with the lending requirements. However, we have seen associations start having per unit deductibles for perils such as water damage. An association with a \$25,000 per unit deductible is finding themselves not compliant with the Fannie and Freddie loan guidelines, making it ineligible for that loan to go through. Not all loans and sale transactions are affected, but it is becoming a problem and one that requires a quick response.



Lowering the deductible to be compliant continues to increase the risk to the insurance company and with the amount of claims our industry has seen over the years, this is not a viable solution to solve the lending issue. A creative solution some of our industry carriers have adopted is to offer a max aggregate deductible. This means that they manually calculate what the 5% maximum amount of the total insurable value and write that amount into the policy as the highest amount they can charge for a deductible in a single loss. This strategy allows for the insurance carriers to continue to offer terms at the most competitive premium and make it compliant with lenders.

Multiple conversations continue to occur with Fannie Mae and Freddie Mac. It has been recommended for borrowers to utilize the Project Waiver Request (PWR) form to submit and ask for an exception if the property has an ineligible deductible. Information on the waiver project and to download the Fannie Mae Sellers guide, go here <https://selling-guide.fanniemae.com/sel/b4-2.1-02/waiver-project-review>

Loss Prevention: Sprinkler head breaks

When a sprinkler head breaks, it can cause thousands of dollars in damage, even if the water is turned off within minutes. Sprinkler heads can break for various reasons, such as maintenance issues, freezing temperatures, or accidental impacts. A common scenario involves an owner or tenant moving items without being mindful of the sprinkler head, resulting in it getting hit and breaking. Knowing the location of water shut-off valves is incredibly helpful, but it can still take time if professionals need to travel to the site to turn off the water.

A great way for a community to be proactive is to install sprinkler guards to prevent objects hitting the heads. The guards still allow for water to pass through if a fire occurred but protect from moving objects. Check with a local fire suppression company who can work with the community to plan this proactive project. Proactive actions the community takes can help reduce losses and help towards negotiating renewals. If your community needs to plan and budget for implementing, the reserve study may be a great option to consider.





Owners Curious Questions:

How do I insure the association's deductible as an owner?

A: It is common for owners to be responsible to insure for the association's property deductible. Owners can purchase insurance for the deductible through their own homeowner policy. For a shared wall community, owners should have an HO6 policy. Within the HO6 policy, the dwelling limit covers the unit owners damage to their unit under the association's deductible. For example, if the association's property deductible is \$25,000, this would be the minimum amount in dwelling coverage that an owner should insure for. It's recommended that the owner get a little extra coverage to serve as a cushion in the event there is an item not covered by the association's policy that could have been insured through the owners HO6 policy.

If you are an owner that rents out your unit, the deductible can not be passed onto the renter and is still insured by the owner. It's highly recommended the owner require tenants to purchase an HO4 policy which provides protection for the personal property and liability in the event there is a negligent loss. Include this requirement in the lease agreement and it should include requiring the association as an additional insured or other interest within their renters policy.



Update of the Month:

AC Filters

Staying cool in the summer is critical as the region experiences increased temperatures. However, AC unit failures can cause unwanted property damage. One way owners can prevent water losses from their AC units is by regularly checking and replacing the air filters. In most cases, changing the AC filter is the owner's

responsibility, but it is a task that should not be overlooked. Filters can be purchased at your local hardware store, or you can reach out to a heating and cooling contractor for assistance and luckily the parts are relatively competitive.

AC unit failures don't always just affect the individual unit; they can impact several units, especially in communities with stacked units. Regularly replacing the AC filter is a simple fix that helps avoid unnecessary claims, which may otherwise be filed against the association's policy. By staying proactive, owners within associations can contribute to the overall maintenance and safety of their property and the community.



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