



Condominium Projects – Fidelity Insurance Requirements

58.5: Fidelity or employee dishonesty insurance for condominiums (03/01/08)

Freddie Mac requires all condominium homeowners associations in Condominium Projects that consist of more than 20 units to obtain and maintain fidelity or employee dishonesty insurance that meets the terms and conditions of coverage detailed in this section. If a Condominium Project is located in a State that requires condominium homeowners associations to obtain and maintain fidelity or employee dishonesty insurance on terms or conditions different from Freddie Mac's, Freddie Mac will deem compliance with the State's requirements to be compliance with Freddie Mac's requirements.

The condominium homeowners association must maintain fidelity or employee dishonesty insurance covering losses resulting from dishonest or fraudulent acts committed by the association's directors, managers, trustees, employees or volunteers who manage the funds collected and held for the benefit of the Condominium Unit owners. A professional management firm must be insured to the same extent as an association that manages its own operation. The management firm must submit evidence of such coverage to the association.

Fidelity or employee dishonesty insurance coverage must have all of the following characteristics:

- The policy must name the condominium homeowners association as the insured, and premiums must be paid as a common expense by the association.
- The coverage must equal no less than the maximum amount of funds in the custody of the condominium owners association or its management firm at any one time. A lower coverage limit is acceptable if the condominium's Project Documents require the homeowners association and any management firm to adhere to certain financial controls. However, in such case, the coverage limit must at least equal the sum of three months of assessments on all units in the Condominium Project.

Freddie Mac will accept reduced fidelity or employee dishonesty insurance coverage based on greater financial controls if such controls include at least one of the following provisions:

- The condominium homeowners association or its management firm maintains separate accounts for the operating budget and the reserve fund. The depository institution in which funds are deposited sends copies of the monthly account statements directly to the association.
- Separate records and accounts are maintained for each condominium homeowners association or other community association using the management firm's services. The management firm does not have the authority to draw checks on or to transfer funds from the reserve fund of the condominium owners association.
- Two or more members of the board of directors must sign any checks drawn on the reserve fund.



Condominium Projects – Fidelity Insurance Requirements

Chapter 4; Sections 401 & 402: Fidelity Insurance (01/31/03)

When a first-lien mortgage loan is secured by a PUD, co-op, or condo unit, Fannie Mae requires that the project development be covered by liability insurance and, in most cases, fidelity insurance. Fannie Mae does not require fidelity insurance coverage for Type A condo projects; for Type E established PUD projects; for Type F new PUD projects that consist of detached dwellings only, or those that consist of both attached and detached dwellings if the mortgage loan Fannie Mae holds is secured by a detached dwelling; or for any other PUD, condo, or co-op project that consists of 20 or fewer units.

The HOA (or co-op corporation) for any PUD, co-op, or condo project development for which Fannie Mae requires fidelity insurance coverage must have blanket fidelity insurance coverage for anyone who handles (or is responsible for) funds held or administered by the HOA or co-op corporation, whether or not that individual receives compensation for services. The insurance policy should name the HOA (or co-op corporation) as the insured and the premiums should be paid as a common expense by the HOA (or co-op corporation). The policy for a condo project must include a provision that calls for ten days' written notice to the HOA (or its insurance trustee) before the policy can be canceled or substantially modified for any reason. This same notice must also be given to each servicer that services a Fannie Mae-owned or Fannie Mae- securitized mortgage loan in the condo project.

A management agent that handles funds for the HOA (or co-op corporation) should be covered by its own fidelity insurance policy, which must provide the same coverage required of the HOA (or co-op corporation).

The fidelity insurance policy should cover the maximum funds that will be in the custody of the HOA (or co-op corporation) or its management agent at any time while the policy is in force. A lesser amount of fidelity insurance coverage is acceptable for a project if the project's legal documents require the HOA (or co-op corporation) and any management company to adhere to certain financial controls. Even then, the fidelity insurance coverage must at least equal the sum of three months of assessments on all units in the project. In those states that have statutory fidelity insurance requirements, Fannie Mae will accept the state fidelity insurance requirements in place of Fannie Mae's.

If reduced coverage based on greater financial controls is accepted, the financial controls must take one or more of the following forms:

- The HOA (or co-op corporation) or the management company must maintain separate bank accounts for the working account and the reserve account, each with appropriate access controls, and the bank in which funds are deposited must send copies of the monthly bank statements directly to the HOA (or co-op corporation);
- The management company must maintain separate records and bank accounts for each HOA (or co-op corporation) that uses its services and the management company must not have the authority to draw checks on – or to transfer funds from – the HOA's (or co-op corporation's) reserve account; or
- Two members of the Board of Directors must sign any checks written on the reserve account.