



Condominium Projects - Fidelity Insurance Requirements

58.5: Fidelity insurance for condominiums (04/06/01)

Fidelity insurance is required for all Class I, II and III Condominium Projects that consist of more than 20 units. In lieu of the coverage required by Freddie Mac, Freddie Mac will accept coverage that meets a State's statutory fidelity insurance requirements.

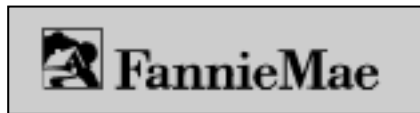
The condominium owners association must carry fidelity insurance covering losses resulting from dishonest or fraudulent acts committed by the association's directors, managers, trustees, employees or volunteers who manage the funds collected and held for the benefit of the Condominium Unit owners. A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

Fidelity insurance coverage must have all of the following characteristics:

- The policy must name the owners 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 association's or management firm's custody at any one time. A lesser amount of coverage is acceptable for a project if the condominium's documents require the owners association and any management company to adhere to certain financial controls. However, in such case, the amount of coverage must at least equal the sum of three months of assessments on all units in the project.

To accept reduced fidelity insurance coverage based on greater financial controls, the financial controls must include at least one of the following provisions:

- Separate accounts for the working account and the reserve account are maintained by the owners association or the management company. The depository institution in which funds are deposited sends copies of the monthly account statements directly to the owners association.
- Separate records and accounts are maintained for each owners association using the management company's services. The management company does not have the authority to draw checks on or to transfer funds from the reserve account of the owners association.
- Two or more members of the board of directors must sign any checks drafted against the reserve account.



Condominium Projects - Fidelity Insurance Requirements

XII, 704: Fidelity Insurance (06/30/02)

We require fidelity insurance for Types B and C condominium projects, Type F PUD projects, and Type 1 and 2 cooperative projects. However, we will not require fidelity insurance for any of these projects that consist of 20 or fewer units. In those states that have statutory fidelity insurance requirements, we will accept the state fidelity insurance requirements in place of ours.

Usually, we expect a lender to verify fidelity insurance coverage as part of its review of the project. However, a lender does not need to verify the fidelity insurance coverage for Type F PUD projects accepted by the lender or for any PUD and condominium projects processed under the limited project review procedures. [Page : 1281 06/30/02]

The owners' association (or cooperative corporation) must have blanket fidelity insurance coverage for anyone who either handles (or is responsible for) funds that it holds or administers, whether or not that individual receives compensation for services. The insurance policy should name the owners' association (or cooperative corporation) as the insured and the premiums should be paid as a common expense by the association (or corporation). The policy for a condominium project must include a provision that calls for ten days' written notice to the owners' association (or 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 -securitized mortgage in the condominium project.

A management agent that handles funds for the owners' association (or cooperative corporation) should be covered by its own fidelity insurance policy, which must provide the same coverage required of the owners' association (or cooperative corporation).

The fidelity insurance policy should cover the maximum funds that will be in the custody of the owners' association (or cooperative 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 owners' association (or cooperative 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.

A lender may accept reduced fidelity insurance coverage based on greater financial controls only when the financial controls take one or more of the following forms:

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