

Navigating Fannie & Freddie's New Insurance Requirements:

What Affordable Housing Owners Need to Know



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Fannie Mae and Freddie Mac have recently tightened their insurance requirements, creating significant challenges for Affordable Housing owners seeking favorable financing. This white paper explains what changed, why it matters, and how owners can respond strategically to avoid costly surprises.

New Requirements

Many Affordable Housing owners are considering converting to Fannie Mae or Freddie Mac loans to secure more favorable financing.

Earlier this year, Fannie and Freddie updated their insurance standards, resulting in stricter General Liability requirements. This has caused some Affordable Housing owners to incur surprise insurance costs exceeding the savings from their property's loan conversion.

The new guidelines prohibit exclusions for claims related to:

- Assault and Battery – Incidents involving physical harm or violence.
- Abuse and Molestation – Claims related to abuse or inappropriate conduct.
- Animal Attacks – Injuries caused by animals on the property.
- Firearms – Incidents involving guns or other weapons.

Freddie Mac has introduced stricter umbrella liability limit requirements based on portfolio unit count. *Reference the chart to the right for updated requirements.*

Aggregate number of residential units covered	Minimum umbrella liability limits
Up to 250	\$1 Million
251 to 500	\$2 Million
501 to 1,000	\$3 Million
1,001 to 2,000	\$5 Million
2,001 to 5,000	\$10 Million
5,001 to 10,000	\$15 Million
More than 10,000	\$20 Million



Some Affordable Housing insurance programs may contain exclusions or sublimits for the “hotspot” claim types listed above. Some may also offer umbrella limits below Freddie Mac’s requirements.

Meeting the Freddie-mandated coverage can be expensive or, in some cases, impossible in the current insurance market. Freddie Mac may require \$50,000-\$250,000 in insurance reserve funding for coverage it deems non-compliant.

How to Respond

Affordable Housing owners are responding with multiple strategies:

- Purchasing standalone policies to bridge coverage gaps
- Comparing other financing options against Fannie’s/Freddie’s increased insurance costs.
- Requesting waivers so lenders will approve the existing program – this can be a time-consuming process, so start early and communicate proactively!
 - Lenders may request additional quotes, carrier declination letters, loss runs, etc.
 - In some cases, the waiver request should come from your broker; in other situations, the insured is well-positioned to request waivers themselves (or it can be a joint effort).

Successful waiver requests often involve a combination of (1) showcasing proactive risk management practices that derisk the property for the lender, (2) demonstrating appropriate contractual risk transfer to third parties, and (3) having early, candid discussions with financing partners – have their insurance requirements created unforeseen costs for their other clients? Do their insurance consultants take a comprehensive, borrower-friendly approach when collecting the necessary information the lender requires to consider waivers?

Key Takeaway

Engage your insurance broker and financing partners early in the Fannie/Freddie process to ensure compliance and protect your bottom line.

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