GOVERNMENT-SPONSORED ENTERPRISES (FANNIE AND FREDDIE) ANNOUNCE UPDATED PROPERTY INSURANCE REQUIREMENTS

The Federal Housing Finance Agency (FHFA) announced updated property insurance requirements for Fannie Mae and Freddie Mac (collectively GSEs) on March 18, 2026, aimed at reducing costs for homeowners, particularly in condos and rural areas. The most significant change is the removal of the strict Replacement Cost Value (RCV) mandate for certain property components, particularly for roofs. FHFA rescinded a mandate that lenders/servicers confirm insurance coverage amounts equal replacement cost of the insured structures that industry advocates claimed could not be complied with and would unnecessarily drive-up costs. Below are Key Policy Updates that follow with a comparison of previous GSE requirements.

Key Policy Updates

- Minimum Coverage Limit Calculation Removed ***(effective immediately)***:
  - The minimum coverage limit calculation involving the unpaid principal balance and 80% of the RCV, along with the corresponding examples and RCV verification requirements have been retired.
  - Property securing the mortgage must be covered by an insurance policy that provides coverage on a replacement cost basis, excluding roofs.
  - Lenders may include guaranteed replacement cost or extended replacement cost endorsement or equivalents, to evidence 100% RCV coverage.
- Actual Cash Value (ACV) for Roofs ***(effective immediately)***:
  - Fannie and Freddie will now accept Actual Cash Value (ACV) coverage for roofs on eligible single-family homes and condominiums.
  - Previously, these were required to have more expensive full replacement cost coverage.
  - The rest of the structure (1-4 family and Condos) must still maintain full Replacement Cost Value protection while allowing servicers of post-closed loans full discretion on any further steps needed to confirm that a property insurance policy meets the RCV coverage requirements when the policy coverage has remained the same or more than the last known coverage amount ***(effective immediately)***.
  - Servicers must take additional steps it deems appropriate to confirm that the property insurance policy meets replacement cost coverage requirements when the coverage has decreased from last known coverage amount ***(effective January 1, 2027)***.
  - Servicers must have procedures that describe the methods used to adhere to the minimum monitoring requirements ***(effective January 1, 2027)***.

- Simplified Condo Deductibles:
  - The maximum per-unit deductible rule for condo projects has been simplified.
  - For master property insurance policies, the maximum allowable per-unit deductible for all required property insurance perils covered by the policy is $50,000 per unit ***(effective July 1, 2026)***.
  - Any master property insurance policy that does not cover any portion of the unit's interior or if the master policy includes a per-unit deductible, the borrower must purchase a unit owners (HO-6) property insurance policy that covers the portion of the interior not included in the master policy and/or the per unit deductible for the peril to which the deductible applies ***(effective immediately)***.
- Annual Reminders:
  - Servicers are required to remind borrowers at least once a year of their responsibility to maintain insurance and recommend they review coverage with their insurance provider ***(effective January 1, 2027)***.
- Lender-Placed Insurance:
  - Servicers must obtain adequate lender-placed insurance immediately upon notification that a borrower's overage has lapsed, been canceled, or non-renewed ***(effective January 1, 2027)***.
  - Lender-placed insurance is no longer used to maintain minimum required coverage as that requirement has been retired.
- Policy Verification:
  - For new and renewed policies, servicers must confirm that coverage meets all GSE requirements regarding insurer ratings, deductibles, and covered perils ***(effective January 1, 2027)***.

Comparison of Current and Previous GSE Property Insurance Requirements

Property Insurance

Policy Area	Previous Requirements	New Requirement
Minimum Coverage Limit Calculation for 1-4 family	Lenders required to maintain a minimum insurance coverage of 80% of the RCV even when the unpaid principal balance was less than the RCV of the property.	Minimum coverage amount requirement using 80% RCV is retired. Property securing the mortgage must be covered by an insurance policy that provides coverage on a replacement cost basis, excluding roofs ***(effective immediately)***.
RCV Documentation	Lenders required to document RCV to verify coverage sufficiency.	RCV documentation requirements retired. RCV coverage sufficiency is assumed if the policy provides coverage on a replacement cost basis, except roofs ***(effective immediately)***.
Roof Coverage	Roofs must be insured on a replacement cost basis.	Roofs do not need replacement cost coverage ***(effective immediately)***.

Condo Master Insurance Requirements

Policy Area	Previous Requirements	New Requirement
RCV Documentation	Detailed documentation to verify replacement cost value.	All RCV documentation requirements rescinded. Lenders/servicers may rely on insurer valuations, Guaranteed Replacement Cost, Estimated Replacement Cost, appraisals, or professional statements ***(effective immediately)***.
Inflation Guard Coverage	Required for master property insurance.	Inflation guard requirement eliminated ***(effective immediately)***.
Roof Replacement Cost Coverage	Roofs must be insured on a replacement cost basis.	Roofs must be insured but not on replacement cost basis. ACV is allowed ***(effective immediately)***.
Per-Unit Deductible	No uniform maximum per-unit deductible across all perils.	Per-Unit deductible is capped at $50,000 per unit for all required perils ***(effective July 1, 2026)***.

Individual Unit Owner Insurance (HO-6)

Policy Area	Previous Requirements	New Requirement
When HO-6 Policy Required	Based on older criteria tied to gaps in master policy; more restrictive and varied.	HO-6 required when: • Any interior components not covered by master homeowners' association policy OR • Master homeowners' association policy has per-unit deductible. ***Effective immediately***
Coverage Sufficiency	Based on detailed RCV calculations and guideline tables.	Coverage must include any interior components not covered by master association policy OR per-unit deductible. ***Effective immediately.***
HO-6 Deductible Limit	Prior maximum deductible requirements applied but were different and lower.	Greater of $2,500 or 5% of coverage amount. ***Effective immediately.***

Servicing Requirements

Policy Area	Previous Requirements	New Requirement
Insurance Monitoring – New/Renewal Policies for 1-4 family units	Servicers monitored coverage, but requirements were less explicit; no decrease coverage-based workflow.	Servicers must confirm insurer rating, deductible, perils, and replacement-cost coverage. Must determine whether coverage has decreased from the last known coverage and take additional steps to verify the decreased coverage represents the RCV. Must have reasonable policies, procedures and controls in place to confirm insurance policies meet minimum requirements. ***Effective January 1, 2027***
Annual Insurance Reminder	No explicit annual reminder requirement.	Servicers must remind borrowers annually to maintain insurance and recommend they review coverage with their insurance provider. This reminder may be included in any existing borrower communication such as monthly mortgage statements, refer the borrower to applicable insurance information on the servicer's website, or direct the borrower to insurance resources on the GSEs' websites. ***Effective January 1, 2027.***
Lender-Placed Insurance	Servicers obtained LPI under general servicing rules.	Servicers must obtain LPI upon any notice of cancelation, non-renewal, or insurance lapse per updated guide structure. ***Effective January 1, 2027.***

Evidence of Insurance Coverage Requirements

The GSEs have updated requirements for evidence of insurance to include electronic data files; however, these files must provide sufficient information to determine if a policy meets the minimum requirements outlined in the updated requirements.

Services that rely on electronic data files must have reasonable procedures in place to mitigate risks associated with not maintaining a specimen of each policy, endorsement and certificate; and with not maintaining evidence of declarations of insurance. Servicers must provide legible hard copies of the complete insurance policies and proof of payments to the GSEs upon request.

OSC/SUI Servicing Review and Implementation

OSC/SUI is in the process of reviewing updated requirements including conducting a risk assessment pertaining to any operational procedural changes that need to be in effect by January 1, 2027, as required by these announcements.

Should you have questions related to this Bulletin, please reach out to your Client Services Manager.