MBA’s COMMERCIAL/MULTIFAMILY FINANCE

Insurance: Responding to Natural Disasters and Other Catastrophic Events

IN COOPERATION WITH SERVICER COUNCIL BUSINESS STRATEGIES COMMITTEE
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Insurance: Responding to Natural Disasters and Other Catastrophic Events

The following practices are intended to provide guidance through the process of preparing for and managing natural disasters and other catastrophic events. These events generally include flood, wind, storm surge, earthquake, landslide, volcanic eruption, wild fire and terrorism, though any event that results in widespread property damage can be managed through these practices.

This document represents the efforts of MBA’s Business Strategy Committee and the Insurance Stakeholders Committee of the MBA Servicer Council to memorialize current industry standards with respect to the steps necessary to prepare for and respond to natural disasters and other catastrophic events. To appropriately manage such an event, Servicing Companies must understand the magnitude of the event, the potential risk to their portfolio, gather information timely from affected borrowers and provide information to stakeholders from the onset of the event through resolution of loss claim. This document is for informational purposes only and is not intended to provide legal advice or serve as a substitute for a proper formal procedure by the Servicing Company.

While receipt of information regarding damage to collateral properties is paramount to clients, Servicing Companies should remain cognizant of the impact of the event on borrowers, management companies and tenants.

GENERAL
All Servicing Companies have their own unique operations, structure as well as policies and procedures relating to catastrophic events; however, as a general rule, processes may include, activities outlined below:

A. Identification of departments and respective staff responsible for tracking potential or actual catastrophic events and setting the response procedure in motion.

B. Identification of potential additional resources that may be drawn upon to assist the responsible department staff as needed.

C. Identification of the authoritative sources to be monitored as information about the potential or actual disaster develops, including, but not limited to, Federal Emergency Management Agency (FEMA alerts), National Oceanic and Atmospheric Administration (NOAA), etc. (“Authoritative Sources”). Note: Some online resources provide email notification when events occur and change.

TRACKING EVENTS
Some events, such as hurricanes, follow a lead period where Servicing Companies have the ability to refine processes and evaluate resources, while other events, such as earthquakes, landslides, etc. are unforeseen. Utilizing news media and other available reports, Servicing Companies can track such events and monitor potential exposure in an effort to provide timely information to their clients.

The practices and standards discussed herein may be hindered due to the nature of the event, the magnitude and scope of the event, damage to infrastructure, loss of life and local and state government response to the event.
D. Maintenance of reporting mechanisms capable of providing key information to clients from the Servicing Company's system which may include loan, property and insurance coverage information. Note: not all loan documents require the delivery of the insurance policy and the policy may not have been delivered.

E. Preparation of specific information to be obtained from borrowers/management companies, as well as establishing the Servicing Company point of contact and process details so the borrower/management company knows what is expected of them.

F. Determination of a damage threshold (amount, percentage, etc.) that may require physical property inspections.

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**Industry Standard:** Servicing Companies have procedures for handling properties subject to both insured casualties and uninsured casualties. The practices in this publication do not replace or supersede specific Servicing Company procedures, but rather are meant to complement them. Note that the varied nature of Servicing Company portfolios, operations and the type of event may require modification of these practices.

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**IDENTIFYING AFFECTED PROPERTIES**

Following an event, the responsible department and staff at the Servicing Company will coordinate activities to contact borrowers, to determine the borrower’s initial damage assessment and review insurance coverage. A few key activities are outlined below:

A. Monitor the Authoritative Sources to determine the affected area on a periodic basis following the event.

B. Provide initial reports of the properties within the affected area and provide information as needed or required by specific client(s). Note: additional damage may be identified and reported following the borrowers' initial assessment.

C. Notify clients and other interested parties of the preliminary steps being taken to determine damage to properties. The frequency of these updates can vary depending on the event, number of properties impacted, borrowers’ ability to access the impacted properties and the receipt of information from impacted borrowers.

D. Update reporting as additional information is obtained including, but not limited to, when the affected area shifts/expands.
IDENTIFYING DAMAGED PROPERTIES

Servicing Companies may initiate a communication plan based on the information needed by various clients, as well as the information which may need to be conveyed to impacted borrowers. Initial communication may be digital and/or verbal. While the method of initial communication may vary, the purpose is generally to gain an understanding of the borrowers’ initial damage assessments in order to inform clients and respond as appropriate. Additional areas of focus depending on the situation may include, but not be limited to, information about any injuries, anticipated relocation and/or loss of rents. Each Servicing Company and serviced portfolio are different and as such, the relevant policies and procedures for addressing these situations will vary across organizations.

A. Based on the nature of the event, determine whether existing plans are adequate or specific additional information is necessary given the particulars of the situation(s).

B. Create or edit existing communication materials and/or script that will be utilized to obtain and provide the necessary information depending on event details.

C. Assign communication responsibility to staff members, as appropriate.

D. Monitor and track responses from borrowers/property managers.

E. Distribute updated reports on a periodic basis. The frequency of such may be driven by the magnitude of the event, service level agreements or client requirements.

F. Classify the damage and re-evaluate the classification upon receipt of updated information (generally based on borrowers estimate of dollar amount of damage initially in addition to other factors including but not limited to pictures, property/loan specifics, or portfolio considerations) in order to determine the properties that will require additional focus. The following are classifications which may be utilized by Servicing Companies to designate the amount of damage:

   a. **Minor or No Damage**: Record borrower assessment and report;

   b. **Moderate Damage**: Use best judgment to determine what classifies as moderate. For example, if damage is less than deductible no claim will be filed, this would likely be considered minor; and

   c. **Major Damage**: Property inspections, property condition assessments or photographs may be considered for damage documentation

G. Based on the magnitude and nature of the event, provide streamlined communication path for borrowers receiving ‘emergency’ loss proceeds and notify impacted clients/investors and other approving parties of the need for expedited handling.

**Industry Standard**: Depending on the nature of the event and the government response, Servicing Companies generally begin to contact borrowers 3–5 business days following the event; however, the appropriate response time is event specific.
POLICY REVIEW

Loan documents may not require routine delivery of a policy as evidence insurance or a required policy may not have been delivered to the Servicing Company pursuant to the terms of the loan documents. As a result, Servicing Companies may not have an insurance policy in hand immediately after an event occurs. In such instances, as damage assessments are being made and properties are identified as having sustained damage, obtaining a copy of the policy may be first step in preparing to review and document coverage details.

A. During the initial response to the event, begin the process of confirming that insurance policies are available and/or seek copies of policies for larger potential damage claims and non-responsive borrowers.

B. Review policies to determine coverage availability and effectiveness as well as exposure.

C. Understand any potential portfolio level issues with respect to blanket coverage policies.

D. Confirm all Mortgagee and Loss Payee clauses are in place.

COMMUNICATION AND REPORTING

While clients will be anxious to determine the degree of damage and obtain both borrower and inspection data, Servicing Companies must balance the impact of the event and its effect on the borrowers with that of the client's desire for information. Early preemptive communication with clients setting forth expectations and the plan to be followed may help to alleviate client concern regarding next steps.

A. Depending on the assessment of damage, provide borrowers with a specific point of contact or point of delivery to allow for expedited attention to damage reports, loss drafts, etc.

B. Provide initial reports to client including the plan for managing through the event, the affected properties and the initial assessments of damage.

C. Ensure that responsible staff provide commentary that adequately describes the nature of the damage and the steps being followed by the borrowers. An effective script and list of questions will help aide staff in obtaining the information necessary to provide such commentary.

D. Monitor news and industry reports of delays, material shortages and price surges to be prepared to respond to investor inquiries.

E. Contact insurance agents as needed to obtain copies of borrower policies in the event that other evidence of insurance was acceptable under the loan documents or that the policy was not delivered.

F. Monitor the insurance industry’s response to the event, and to the extent deemed appropriate, notify insurers and agents of clients’ mortgagee and loss payee rights.

G. Be prepared to modify your communication strategy to match the nature of the event.

Industry Standard: The MBA Significant Insurance Report is utilized by many Servicing Companies to provide information to clients and other interested parties.
FOLLOWING UP ON CLAIMS, REPAIRS
As the aftermath of the event unfolds, monitoring claims, reporting and loss draft approvals typically follow the Servicing Companies’ procedures, the servicing agreement and loan documentation. Reporting of ongoing repairs and performance through watch lists and other means as required by your client will generally continue through restoration.

**Industry Standard:** The length of time that a Servicing Company will provide special reporting will vary based on the nature of the event, the number of properties affected and the damage incurred. It generally may continue until all the damaged properties in a portfolio are restored (or at a minimum, the claim is settled and construction has begun).