

1
2
3
4
5
6
7

Section II Production

Chapter 14

Insurance Requirements

14.1

Introduction

8
9 This chapter provides the Office of Residential Care Facilities' (ORCF), overall policy with
10 respect to the various types of insurance required in connection with the Section 232 Office of
11 Residential Care Facilities program. Professional Liability Insurance (PLI) required of
12 Healthcare Facilities was formerly addressed by Housing Notice 04-15. PLI is a requirement in
13 a Section 232 project, but it is sufficiently distinct from the other types of required insurance. It
14 is addressed separately in Appendix 14.1 to this chapter.

15
16 A. **General Insurance Requirements – Applies to All Policies.** ORCF requires each Property
17 to be covered by property and liability insurance for the life of the mortgage loan. The
18 named insured for each policy must be the responsible party for that type of insurance policy.

19
20 B. **All policies must:**

- 21
22 1. Be written on a per occurrence basis except for earthquake and professional liability coverage,
23 which may be written on a per claims/claims made basis;
24
25 2. Have a cancellation provision requiring the carrier to notify the Lender at least 30 days in
26 advance of ~~any~~ policy ~~reduction or~~ cancellation for any reason except non-payment of
27 premium;
28
29 3. Include a cancellation provision that provides for at least a 10-day written notification for non-
30 payment of premium; and

31
32 4. Name the Department of Housing and Urban Development (HUD) as an additional
33 insured, on all required liability policies except for professional liability insurance
34 policies; and

35
36 5. Contain a mortgagee clause ~~and loss payable clause~~ acceptable to HUD and a Lenders
37 Loss Payable Endorsement solely naming the Lender. An acceptable mortgagee clause
38 would be: Lender Name, Its successors and/or assigns, As their interest may appear,
39 Lender's Street Address or PO Box, Lender's City, State and Zip Code.

40 *It is understood that HUD shall not be named on any Hazard Loss Drafts. Monitoring and
41 management of Hazard Losses shall be the responsibility and obligation of the Lender.

42
43 **C. Policy Requirements:**

- 44
45 1. Each policy must either have a term of at least one year at the time of closing the
46 mortgage loan; or
47
48 2. Have a term with less than 12 months remaining at the time of closing the Mortgage Loan,
49 so long as the policy contains the required coverage or the required coverage is being added
50 to the existing policy. The Lender must collect funds at Closing and during the months
51 following Closing to ensure adequate funds will be on deposit with the Lender to pay the
52 next premium by its scheduled due date.
53

54 **D. Financing of Premiums:**

55 All premiums covering the first full year for existing or new property insurance policies
56 must be paid in full at Closing. Premiums for General Liability and Professional Liability
57 policies may be paid through an alternative payment plan (e.g., monthly or quarterly)
58 approved in writing by the Lender and the insuring entity. The Borrower shall not finance
59 premiums for renewals of any policy covering the physical damage to collateral of the loan.
60

61 **E. Evidence of Insurance:**

62
63 The Borrower must provide to the Lender evidence of insurance for the Property on or
64 before the date of Closing of the Mortgage Loan or the policy's renewal date. Evidence of
65 insurance coverage for the Property must be provided as follows:
66

67 • ACORD 28 – “Evidence of Commercial Property Insurance” (most recent version or per
68 state requirements if applicable), combined with ACORD 25 – “Certificate of Liability
69 Insurance”;

70 • ACORD 75 – “Insurance Binder”; or

71 • Mortgage Bankers Association (MBA) Evidence of Insurance – Commercial Property
72 Form. In states where the MBA form is filed and approved, the appropriate state form must be
73 used. Otherwise, the most recently revised MBA form should be used, which can be found at:

74 <http://www.mba.org>

75 If the borrower cannot procure any of the three above, HUD and Lender will accept a letter
76 signed by the Borrower and the licensed insurance broker/agent certifying that all coverage
77 requirements and terms and conditions meet HUD's requirements. Temporary coverage, such as
78 an insurance binder (Acord 75 - “Insurance Binder”), has an expiration date that must be
79 monitored by the Lender and renewed on or before its expiration date.

80 ■ Permanent Evidence – The following are acceptable forms of permanent evidence
81 of insurance:

82 • The original or duplicate copy of each current insurance policy, which must be received,
83 reviewed and placed in the Lender’s Servicing File within 90 days after the delivery of the
84 Mortgage Loan or the date of the insurance policy renewal. Except for an NFIP policy, only the
85 complete insurance policy is sufficient evidence of coverage. Insurance policy declarations
86 pages, single policy endorsements, insurance binders and certificates of insurance are not an
87 acceptable form of permanent insurance coverage. The Policy Declaration page of an NFIP
88 policy is acceptable evidence of [the flood insurance coverage referenced thereon.](#)

89 • For Properties securing a Mortgage Loans with an Unpaid Principal Balance (“UPB”) of
90 \$10 million loan or below, the “MBA Evidence of Insurance – Commercial Property Form” is
91 acceptable under the following conditions:

92 ○ Form must be complete in its entirety;

93 ○ Form must have an original signature of an individual authorized to execute the
94 “Evidence of Insurance” on behalf of the insurance carriers issuing each policy of Property
95 Insurance described on the form; and

96 ○ In states where the form is filed and approved, the appropriate state form must be
97 used, otherwise the most recently revised MBA Evidence of Insurance – Commercial Property
98 Form should be used.

99 • For Properties securing a Mortgage Loan with an UPB in excess of \$10 million and/or for
100 multi-layered Blanket Policies, including Master Property Insurance Programs, a duplicate copy
101 of the primary insurance policies must be received along with a letter (signed and dated on
102 company letterhead) from an individual authorized to execute any evidence of insurance on
103 behalf of the insurance carriers issuing each policy of Property Insurance, and stating that all
104 policies follow the same Terms, Conditions and Exclusions as the primary policy. Any
105 differences must be specified.

106 • HUD and Lender recognize that some insurance carriers use “boiler plate” policies that do not
107 change from year to year. In these cases, the Lender may keep a specimen kit or library of such
108 policies and endorsements, requesting only the renewal Declarations Page along with a list of
109 endorsements as permanent evidence of insurance. The Lender must confirm that the policies on file
110 are current.

111
112 1. Temporary Evidence: Either (i) an ACORD 28 (either the 2003 or 2006 version is
113 acceptable), combined with ACORD 25S, or (ii) ACORD 75S, are acceptable forms of
114 temporary evidence of insurance. If an ACORD certificate is not available, HUD will
115 accept a letter signed by the Borrower and the licensed insurance broker certifying that the
116 coverages, deductibles and exclusions meet HUD’s requirements. Temporary coverage,
117 such as an insurance binder, has an expiration date that must be monitored by the Lender
118 and renewed on or before its expiration date.

- 119
120
121
122
- The Lender will be liable to HUD if a binder expires, the Borrower has not provided sufficient evidence of permanent coverage, and an uninsured loss occurs.

123 ~~2.— Permanent Evidence: The originals or certified copies of current insurance policies~~
124 ~~must be received, reviewed and placed in the Lender’s Servicing File within 90 days~~
125 ~~after the delivery of the Mortgage Loan or the date of the insurance policy renewal.~~
126 ~~Except for a National Flood Insurance Program (NFIP) policy, only the complete~~
127 ~~insurance policy is sufficient evidence of coverage. Insurance policy declarations~~
128 ~~pages, single policy endorsements, insurance binders and certificates of insurance are~~
129 ~~not an acceptable form of permanent insurance coverage. The Policy Declaration page~~
130 ~~of a NFIP policy is acceptable evidence of flood insurance coverage.~~
131
132

14.2

Blanket Policies

133
134 Use of a blanket or package policy (or policies) of insurance covering the property and other
135 properties and liabilities of the Borrower is acceptable, provided that:

- 136
137 A. The policy provides the same or better insurance coverage as a single property insurance
138 policy;
139
140 B. The property is listed and identifiable in the policy or associated schedules; and
141
142 C. The policy complies with all other applicable requirements contained in this Chapter.
143
144

14.3

Property/Casualty Insurance Carriers

145
146 A property/casualty insurance carrier must meet the following rating requirements even if it is
147 rated by one or more rating agencies or conditions:

- 148
149 A. A.M. Best Company general policyholder's rating of "A-" or better and a financial
150 performance index rating of "VI" or better in Best's Insurance Reports or Best's Key Rating
151 Guide.
152
153 B. Financial Stability Rating of "A" or better from Demotech.
154
155 C. Various state-wide pools (if it is the only coverage that can be obtained) or flood companies
156 approved under the National Flood Insurance Program (NFIP). Carrier must be licensed to
157 do business in the United States.
158
159

14.4

Insurance Data Requirements

160
161 A. ~~The Lender must retain information of the insurance coverage on each Mortgage Loan~~
162 ~~for transmittal to HUD upon request.~~ Information of the following types of insurance is
163 required for each Mortgage Loan:

164 On an annual basis, the Lender must complete and retain an insurance compliance checklist in the
165 Servicing File, in either electronic or hard copy format. The Lender must retain information
166 relating to all insurance coverages for each Mortgage Loan. Such information must be
167 provided to HUD upon request. For each type of required insurance coverage (See Sections
168 14.5-14.7), the following must be included:

- 169 • Name of Insurer;
- 170 • Name of Insured/Borrower;
- 171 • Coverage Amount;
- 172 • Deductible;
- 173 • Expiration Date;
- 174 • Policy Term;
- 175 • Description of Property Insured: and
- 176 • Coinsurer and percent, if applicable.

- 177
- 178 1. ~~Special Form (Formerly referred to as "All Risk")~~
- 179
- 180 2. ~~Business Income~~
- 181
- 182 3. ~~Earthquake~~
- 183
- 184 4. ~~Flood~~
- 185
- 186 5. ~~Ordinance & Law~~
- 187
- 188 6. ~~Windstorm~~
- 189
- 190 7. ~~General Liability~~
- 191
- 192 8. ~~Umbrella/Excess Liability~~
- 193
- 194 9. ~~Professional Liability~~

195

196 B. ~~For each type of insurance listed above, the Lender is required to retain the following~~
197 ~~data, at a minimum:~~

- 198
- 199 1. ~~Name of Insurer~~
- 200
- 201 2. ~~Coverage Amount~~

202
203 3. ~~Deductible~~

204
205 4. ~~Expiration Date~~

206
207 HUD requires the Property, Borrower, Operator, and Management Agent shall be covered by
208 the insurances described in this Program Guidance, as appropriate, for the life of the
209 Mortgage Loan. It is the Lender's responsibility to ensure that the insurance requirements
210 are met on an annual basis.

211 212 **14.5**

Property Insurance Requirements

213 This section covers the requirements that policies for property insurance must satisfy.

214 215 A. **Property Damage** (“Special Form”)

216
217

What's Required	“Special Form” (formerly referred to as “All Risk”) Property Insurance
When Does it Apply?	All property types.
Amount of Coverage	<ul style="list-style-type: none">• 90% of Estimated Replacement Cost. No co-insurance or agreed amount endorsement. Policy must be free from coinsurance.
Maximum Deductible	<ul style="list-style-type: none">• \$25,000 per occurrence for a portfolio or single asset Mortgage Loan with a Property having less than or equal to \$100 million in total replacement values, as listed in the policy.• 1% or \$250,000 per occurrence for a portfolio or single asset Mortgage Loans with a Property having greater than or equal to \$100 million in total replacement values, as listed in the policy.

218
219 1. The 90% of Estimated Replacement Cost Value (as defined by the Insurable Value
220 Calculation contained in the 3rd party Project Capital Needs Assessment) includes
221 the cost of excavations, foundations, piers, or other supports which are below the
222 surface of the lowest basement floor or where there is no basement, which are
223 below the surface of the ground, underground flues, pipes, and drains. ~~These items~~
224 ~~are generally excluded from the Property Insurance coverage when it is subject to~~
225 ~~the provisions of the Coinsurance Clause or similar clause.~~ If the Builders Risk
226 Insurance or the Permanent Fire and Extended Coverage Insurance does not insure
227 these items, then an amount acceptable to the Mortgagee will be deducted from the
228 Assistant Secretary for Housing-Federal Housing Commissioner's estimate of the
229 90% of Estimated Replacement Cost for the purpose of estimating the amount of
230 Builders Risk Insurance or the amount of Permanent Insurance.

231
232 If the Estimated Replacement Cost is not provided in the PCNA, a report using
233 valuation software such as Marshall and Swift or similar industry recognized software

234 may be submitted to provide the Estimated Replacement Cost.

235
236 Please note that “Replacement Cost New,” a value sometimes found on the appraisal,
237 should **not** be used for the purpose of the Estimated Replacement Cost calculation
238 because “Replacement Cost New” may include uninsurable items.

239
240 For Estimated Replacement Cost Value of New Construction projects, please see the
241 Lender’s Architectural Reviewer and Cost Analyst’s Statement of Work located on the
242 Section 232 Program website.

243
244 4.2. The following exclusions from “Special Form” insurance policies are acceptable:

- 245 a. War or Military Action,
246 b. Nuclear Hazard,
247 c. Volcanic eruptions,
248 d. Fraudulent or dishonest acts committed by the insured,
249 e. Dispersal, release or escape of contaminants, or pollution (biological and
250 chemical agents), Windstorm, flood and earth movement exclusions also are
251 acceptable, provided a separate policy or coverage is obtained for these
252 exclusions, as specified elsewhere in this chapter.

253
254 **B. Ordinance and Law Coverage**

255

What’s Required	Ordinance and Law Coverage
When Does it Apply?	<p>Properties that contain any type of non-conformance under current building, zoning, or land use laws or ordinances <u>and cannot be rebuilt "as is".</u> <u>Note "As Is" means the ability to be rebuilt with the same building footprint and square footage, within the municipality’s required time frame and without increasing the nonconformity or as otherwise defined by the municipality. The Lender should pay special attention to required time frame and its feasibility..</u></p>
Amount of Coverage	<ul style="list-style-type: none">• <u>Coverage A</u> - Loss of Undamaged Portion of the Property: Equal to 100% of the full replacement cost of the Property less the damage threshold of the local building ordinance. If threshold is not available, 100% of the full replacement cost of the Property.• <u>Coverage B</u> - Demolition Cost: Minimum 10% of the full replacement cost of the Property.• <u>Coverage C</u> - Increased Cost of Construction: Minimum 10% of the full replacement cost of the Property. <p><u>Applicable deductibles shall be no greater than property insurance deductible.</u></p>

256
257 **C. Boiler and Machinery/Equipment Breakdown Insurance**

What's Required	Coverage from loss arising from the operation of pressure, mechanical, and electrical equipment.
When Does it Apply?	Properties where any centralized HVAC, boiler, water heater or other type of pressure-fired vessel is in operation and regulated by the state where the Property is located. If boiler or boilers located at the subject property are other than steam boilers, specific Boiler Explosion Insurance generally is not required. If there is a steam boiler or boilers in operation in connection with the subject property, specific Boiler Explosion Insurance is required.
Amount of Coverage	At least 90% replacement cost (as described in Section 14.A.1) of the building(s) that house the equipment. No co-insurance or agreed endorsement. <u>Coverage must be free from coinsurance.</u>
Maximum Deductible	No more than the deductibles on the property insurance policy.

14.6

Liability Insurance

A. HUD requires that each Property and Borrower be covered by Liability Insurance for the life of the Mortgage Loan. This section covers the guidelines and requirements that policies for Liability Insurance must meet.

B. In the case of new construction, substantial rehabilitation, or additions, both the General Contractor and the Borrower must be covered by Commercial General Liability Insurance. ~~Such Commercial General Liability Insurance shall be endorsed to include Owner's and Contractor's protective coverage.~~

C. Commercial General Liability Insurance

1. Commercial General Liability Insurance for bodily injury, property damage and personal injury, such liability policies must not contain an exclusion for contractual liability assumed by the Borrower in any Mortgage Document or related agreement that indemnifies HUD.
2. Applies to all property types
3. Minimum Coverage
 - a. Primary coverage amount: \$1 million per occurrence/\$3 million minimum general aggregate limit per location, plus
 - b. Minimum Umbrella Liability Insurance (above the primary) is required for 10 or more facilities for an additional \$5,000,000.
 - c. The minimum required coverage limit shall be satisfied by adding any combination of primary and umbrella/excess per occurrence and aggregate

- 287 limits so that the sum of both equals the sum of the limits required in a. plus
 288 b. above
 289 d. Use of Blanket Policies must comply with the requirements of this Program
 290 Guidance.
 291 4. Commercial General Liability Insurance Maximum Deductibles:
 292 a. \$25,000 deductible/SIR (self-insured retention) for portfolio and/or single
 293 asset Mortgage Loans with Properties less than or equal to \$100 million in
 294 total replacement values, as listed in the Property policy
 295 b. \$100,000 deductible/SIR for portfolios and/or single asset Mortgage Loans
 296 with Properties greater than or equal to \$100 million in total replacement
 297 values, as listed in the Property policy.
 298

299 **D. Professional Liability Insurance – refer to Appendix 14.1**
 300

What's Required	Professional Liability Insurance
When Does it Apply?	All properties.
Amount of Coverage	Minimum of \$1 million per occurrence / \$3 million aggregate. Determination of coverage must comply with Appendix 14.1.
Maximum Deductible	Refer to Appendix 14.1

301 **E. Directors' and Officers' Liability Insurance**
 302
 303

What's Required	Directors' and Officers' Liability Insurance
When Does it Apply?	Cooperative Corporations Only.
Amount of Coverage	Minimum \$1 million per occurrence.
Maximum Deductible	Same as required for Commercial General Liability insurance.

304 **F. Commercial Auto Liability Insurance**
 305
 306

What's Required	Commercial Auto Liability Insurance that covers owned, non-owned, hired and leased vehicles (whichever shall apply), including personal injury protection and uninsured motorist liability.
When Does it Apply?	If the <u>borrower owns or hires any vehicle in its name or if individuals use their own vehicles for business purposes, then Property uses cars, vans or trucks for business purposes,</u> Commercial Auto Liability Insurance must cover those vehicles. This also applies during the construction period.
Amount of Coverage	\$1 million per occurrence. <u>Coverage limit must be reinstated after each loss.</u>

307
 308
 309
 310

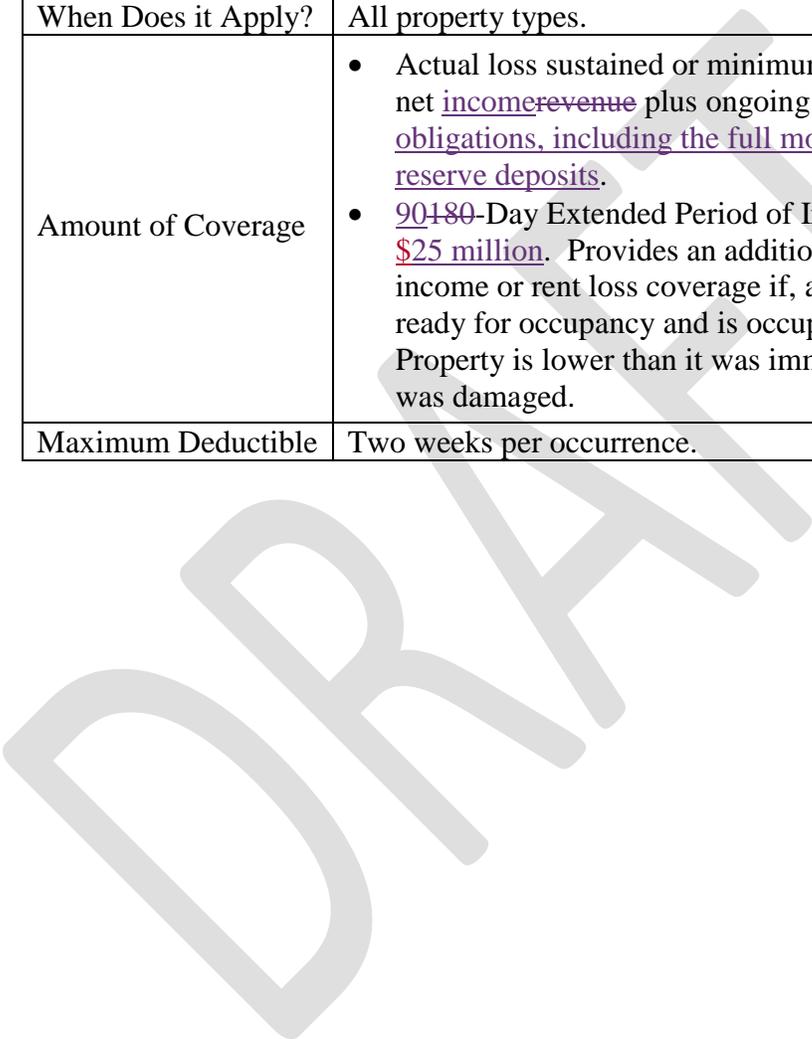
14.7 Additional Insurances

311 The following sections specify additional insurance coverage required by HUD for each
 312 Property.

313
 314 **A. Business Income Coverage**
 315

What's Required	Business Income Coverage is required for all property insurance coverage including windstorm, flood and earthquake, even if written on a stand-alone basis. See Windstorm Coverage, for additional information regarding the windstorm.
When Does it Apply?	All property types.
Amount of Coverage	<ul style="list-style-type: none"> • Actual loss sustained or minimum of most recent 12 months' net income <u>revenue</u> plus ongoing expenses <u>and other ongoing obligations, including the full mortgage payment, MIP and reserve deposits.</u> • 90 <u>180</u>-Day Extended Period of Indemnity <u>for loans greater than \$25 million.</u> Provides an additional 90 <u>180</u> days of business income or rent loss coverage if, after the damaged Property is ready for occupancy and is occupied, the occupancy level of the Property is lower than it was immediately before the Property was damaged.
Maximum Deductible	Two weeks per occurrence.

316
 317



What's Required	Earthquake Insurance
When Does it Apply?	<p>Earthquake Insurance is required for all properties located in Seismic Zones 3 or 4 that meet the Property risk factors listed below:</p> <ul style="list-style-type: none"> • Properties located in Seismic Zones 3 or 4: <ul style="list-style-type: none"> ○ reinforced masonry buildings and pre-cast concrete or tilt-up buildings constructed prior to 1994; ○ reinforced concrete frame or reinforced concrete shear wall buildings constructed prior to 1976; ○ wood frame buildings on non-braced cripple walls (sometimes referred to as crawl space walls – short wood perimeter walls used to elevate a Property above-ground to allow access to the substructure and utility lines or to level a building constructed on a slope); ○ wood frame buildings without anchorage to foundation; or, ○ any building with a weak (soft) story at the first level above grade. • Properties located in Seismic Zone 4 only: <ul style="list-style-type: none"> ○ buildings on sites with significant liquefaction potential (e.g., low-lying areas along bodies of water such as rivers, lakes, bays, the coast or waterways) unless provided with deep foundations (piles or piers); or, ○ buildings with tuck-under parking constructed prior to 1988. • PML Study <p>A level I, Seismic Risk Assessment (Probable Maximum Loss [PML] Study) is required for any Mortgage Loan:</p> <ul style="list-style-type: none"> ▪ greater than \$25 million, or ▪ secured by a Property having one or more of the above risk factors. <p>The PML study will be performed by the engineer performing the PNA so long as such engineer is also qualified to perform geological assessments.</p> <p><u>Acceptable Level of Seismic Risk</u></p> <p>The acceptable level of seismic risk is represented by a Probable Maximum Loss (PML), using a 10%/50 year exceedance probability, which does not exceed 20% <u>(a level less than or equal to 20% is acceptable)</u>. If the Property has a PML that exceeds 20%, but is less than <u>or equal to 40%</u> (using the 10%/50-year exceedance probability standard), a waiver will be required.</p> <p><u>Ineligible Properties</u></p>

	<p>A Mortgage Loan secured by a Property in Seismic Zones 3 or 4, and having one or more of the following risk factors is not eligible for mortgage insurance:</p> <ul style="list-style-type: none"> ▪ unreinforced masonry buildings; ▪ buildings constructed on hillsides with slope exceeding a 30 degree angle; and ▪ a PML greater than 40%, using the 10%/50-year exceedance probability standard.
Amount of Coverage	<ul style="list-style-type: none"> • 100% of the full replacement cost of the Property Improvements. • Business income coverage for <u>actual loss sustained for a minimum of 12 months net income plus ongoing expenses and other ongoing obligations, including the full mortgage payment, MIP and reserve deposits.</u> plus <u>In addition, a 90+80- day extended period of indemnity is required for loans greater than \$25 million (as otherwise specified in this Program Guidance).</u> Business Income coverage is required even if written on a stand-alone basis.
Maximum Deductible	10% of the total insured value as listed on the policy, maximum \$250,000 per location.

320
321
322

C. Builder’s Risk Insurance

What’s Required	<p>Builder’s Risk Insurance (comprehensive form). The Builders Risk Insurance policy or policies shall show the Borrower as the Insured and shall also show as additional insured the general contractor and other contractors and subcontractors, as their interests will appear.</p>
When Does it Apply?	All property types during construction or substantial rehabilitation.
Amount of Coverage	100% of the completed value, on a non-reporting basis.
Maximum Deductible	\$25,000 per property.

323
324
325

D. Workers’ Compensation

What’s Required	Statutory Workers’ Compensation and Employer’s Liability Insurance
When Does it Apply?	Where employees of the Borrower, <u>Management Agent, where applicable and Operator, where applicable</u> are required to be covered by workers’ compensation laws of the state where the Property is located.
Amount of Coverage	<ul style="list-style-type: none"> • Employer’s Liability with a limit of \$1 million; and, • Statutory Limits for compensation.

326 E. **Fidelity Bond/Crime Insurance**
 327

What's Required	Fidelity Bond, Employee Dishonesty coverage or Crime Insurance. This insurance reimburses the insured for losses resulting from dishonest acts of any employee, officer or board member. The policy must cover: <ul style="list-style-type: none"> • All principals of the <u>borrower</u>, management entity, <u>if applicable, the operating entity, where applicable</u> and • All persons who participate directly or indirectly in the management and maintenance of the project and its assets, accounts, and records. Coverage shall be through one or more bonds, and one bond may cover more than one project, including projects whose mortgages are not insured or held by HUD. The agent's principals and supervisory and front-line staff will be covered under the same bond.
When Does it Apply?	All properties.
Amount of Coverage	<ul style="list-style-type: none"> • 2 months of Gross Potential Income of project • If coverage is for more than one project, the minimum is computed using the project with the highest gross potential income.
Maximum Deductible	\$25,000 per property.

328
 329 F. **Sinkhole/Mine Subsidence Insurance**
 330

What's Required	Sinkhole/Mine Subsidence Insurance
When Does it Apply?	All properties in areas prone to these geological phenomena.
Amount of Coverage	100% replacement cost.
Maximum Deductible	\$25,000 per property.

331
 332 G. **Windstorm Coverage**
 333

What's Required	If the "Special Form" property damage insurance excludes any type of wind-related event, a separate windstorm insurance policy must be obtained. Coverage obtained through state insurance plans or other state-managed windstorm and beach erosion insurance pools is acceptable if that is the only windstorm coverage available in an insurance market.
When Does it Apply?	All properties.
Amount of Coverage	100% replacement cost, or, if replacement cost coverage is not available, the then actual cash value of the Property if it equals or exceeds the current unpaid Mortgage Loan balance. Business income: Actual loss sustained or minimum most recent 12 months net income/revenue plus ongoing expenses and other

	<p><u>ongoing obligations, including the full mortgage payment, MIP and reserve deposits.</u> Business Income coverage is required even if written on a stand-alone basis.</p> <p><u>90-Day Extended Period of Indemnity for loans greater than \$25 million. Provides an additional 90 days of business income or rent loss coverage if, after the damaged Property is ready for occupancy and is occupied, the occupancy level of the Property is lower than it was immediately before the Property was damaged.</u></p>
Maximum Deductible	<p>10% of the total insured value, as listed on the policy, maximum up to \$250,000 per occurrence.</p> <p>*Business Income should not be subject to a deductible or waiting period greater than two weeks.</p>

334

335 **H. Flood Insurance**

336

337

338

339

340

341

342

343

344

1. The Lender must determine, for every insured mortgage, whether any of the improvements are located in a Special Flood Hazard Area (SFHA). SFHAs are areas designated by the Federal Emergency Management Agency (FEMA) as Zone A or V. An application for mortgage insurance shall not be approved for a property located in a FEMA identified special flood hazard area in which the community has been suspended from or does not participate in the National Flood Insurance Program.

What's Required	Flood
When Does it Apply?	<p>Flood insurance is required for any building fully or partially located in SFHA, Zone A or V. Even if that part of the building within the SFHA is not subject to coverage (e.g., a deck), the entire building is considered to be in the SFHA.</p> <p>If no part of a building is located in an SFHA, then flood insurance is not required, even if the unimproved portions of the Property are in an SFHA.</p>
Amount of Coverage	<p>100% of replacement cost of Improvements located in an SFHA; <u>and</u> Business income coverage for a <u>minimum of 12 months actual loss sustained or a minimum of most recent 12 months net income plus ongoing expenses and other ongoing obligations, including the full mortgage payment, MIP and reserve deposits. In addition, plus a 90+80-day extended period of indemnity is required for loans greater than \$25 million (as otherwise specified in this Program Guidance)</u> for Improvements located in an SFHA. Business Income coverage is required even if written on a stand-alone basis.</p> <p><u>-Full replacement cost can be achieved by a standalone policy equal to 100% replacement cost; or by securing an</u></p>

	<p><u>NFIP policy along with an Excess Flood or Difference in Condition ("DIC") insurance to provide the difference up to the full replacement cost of the property, including Business Income and Rental Value coverage.</u></p> <p><u>If 100% of the full replacement cost coverage is unavailable (as demonstrated by letters of declination from three unrelated third party insurance companies) or the premium cost is commercially unreasonable, not economically feasible, Lender may accept the maximum amount of coverage available per building of NFIP coverage provided Lender has received 3 quotes or declinations letters evidencing the cost of full coverage would cause a decrease in the Debt Service Coverage by more than a minimum of ten (10) basis points. The unavailability of replacement cost compliance coverage shall be confirmed annually by Lender and records of this confirmation shall be retained with the Lender's mortgage file.</u></p> <p><u>If 100% replacement cost coverage is available but the premium is commercially unreasonable, then, upon approval by HUD, Lender may accept the maximum amount of coverage available per building of NFIP coverage. The commercial unreasonableness of the replacement cost coverage shall be analyzed annually by Lender and appropriate records retained in the Lender's mortgage file.</u></p> <p><u>Moreover, Acceptance of the NFIP coverage does not negate the requirement for business income coverage. A separate policy must still be obtained to coverage the business income exposure associated with a flood, in the amounts set forth above. Cost of replacement cost compliance was be analyzed annually by Lender.</u> then the maximum amount of insurance available under the National Flood Insurance Program (NFIP) must be obtained. An excess flood or Difference In Conditions (DIC) policy must provide for the difference, if any, between the maximum limit provided by NFIP policies and the full replacement cost and the required Business Income coverage as noted above.</p>
Maximum Deductible	<u>52%</u> of the replacement cost of the Mortgaged Property.

345
346
347
348
349
350

- a. Flood insurance must be in the form of the standard policy issued by either a member of the National Flood Insurance Program (NFIP) or a private company authorized to participate in the NFIP's "Write Your Own" program (WYO). Conditions may change over time and zones may be remapped, resulting in the reclassification of non-flood areas. The Lender must ensure

351 that flood insurance is obtained if any property improvements are later
352 determined to lie within a remapped SFHA.
353 b. If conditions warrant, HUD or the Lender will require flood insurance for
354 Property Improvements located outside of an SFHA but within an area
355 designated by FEMA as Zone X, such as a Property that is in an area subject
356 to flooding due to storm water or within close proximity to an SFHA
357 boundary.

- 358
- 359 2. Flood Insurance Determination: For every Mortgage Loan, the Lender must
360 *determine whether any of the Property Improvements are located in an SFHA and*
361 *must document each determination on a Standard Flood Hazard Determination*
362 *form issued by FEMA (FEMA Form 086-0-3281-93). The Lender must obtain*
363 *flood-zone determinations from a qualified third-party flood-zone determination*
364 *firm. The Lender must place a completed copy of the Standard Flood Hazard*
365 *Determination form in the Lender Servicing File for the Mortgage Loan. HUD*
366 *expects the Lender to exercise care and sound judgment when it selects and*
367 *contracts with a third-party flood-zone determination firm.*

368

369 Because conditions may change over time, the status of a zone may change. As a
370 result, the Lender must obtain from its flood zone determination firm "life-of-
371 loan" monitoring and coverage, which means that the monitoring company will
372 notify the Lender if and when flood insurance is required for a monitored
373 Property. The Lender must ensure that the monitoring company it selects agrees
374 to continue monitoring for all of the covered Properties in the event that the
375 Lender sells or otherwise transfers its servicing rights to another Mortgage Loan
376 servicer.

- 377
- 378 3. The flood insurance policy must be issued by either a member of the National
379 Flood Insurance Program (NFIP) or a private company authorized to participate in
380 the NFIP's "Write Your Own" (WYO) program. For a list of FIP Insurers and FIP
381 WYO insurers, please visit the FEMA website.

382

383 List of FIP WYO insurers: http://www.fema.gov/business/nfip/wyo_subsidaries.shtm

384 List of FIP Insurers: <http://www.fema.gov/nfipInsurance/search.do>

385