

U. S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
PROPERTY INSURANCE REQUIREMENTS FOR SECTION 202
HOUSING FOR THE ELDERLY OR HANDICAPPED

	(Date)
TO: _____	_____
(Borrower)	(Project Number)
_____	_____
(Street Address)	(Project Name)
_____	_____
(City)	(Project Location)

1. Reference is made to the applicable regulations and agreements of Section 202 of the Housing Act of 1959, as amended, under which a Federal loan is being made on the above property.

2. The purpose of this notice is to advise the Borrower of HUD's requirements as to the types and amounts of property insurance and fidelity bond coverages to be procured and maintained by the Borrower or contractor, as appropriate, so long as the loan is outstanding. The acceptability of insurance carriers, types of coverage, conditions, amounts and scope of insurance policies are subject to approval by HUD. Each such insurance policy or bond shall be written to become effective at the time the Borrower becomes subject to the risk or hazard covered thereby.

3. (a) Attached hereto and made a part hereof is Property Insurance Schedule, Form HUD-92329, dated _____, constituting HUD's estimate of the Total 100% Insurable Value of the property. The Property Insurance Schedule of Insurable Values is for the purpose of estimating the amount of Permanent Insurance, as well as the amount of Builders Risk Insurance.

(b) The total 100% Insurable Value reflected upon the attached Property Insurance Schedule includes the cost of excavations, foundations, piers, or other supports which are below the surface of the lowest basement

floor or where there is no basement, which are below the surface of the ground, underground flues, pipes and drains. These items are generally excluded from the Property Insurance coverage when it is subject to the provisions of the Coinsurance Clause or similar clause. If the Builders Risk Insurance or the Permanent Fire and Extended Coverage Insurance does not insure these items, then an amount acceptable to HUD may be deducted

from HUD's estimate of the Total 100% Insurable Value for the purpose of estimating the amount of Builders Risk Insurance or the amount of Permanent Insurance.

4. Insurance During Construction

Prior to the disbursement of any funds, the Borrower shall provide evidence of:

(a) Blanket Fidelity Bond covering all officials and employees, including noncompensated officers, in an amount equal to the average anticipated loan disbursements during the construction period. The minimum limit shall be determined by dividing the total mortgage amount by the estimated number of months in the construction period plus 2 and rounding the quotient to the nearest \$50,000. Under no circumstance should a bond exceed \$500,000. Projects using modular components and projects for which the average loan disbursements are expected to exceed \$500,000 shall establish an escrow with a title company to handle all disbursements during the course of construction. In cases where a title company is utilized, no fidelity bond is required for the Borrower until the project enters the operating period.

(b) Workers' Compensation and Employers' Liability Insurance (statutory or voluntary) covering all employees of the Borrower and any other facilities, the revenues of which are pledged to project operations.

(c) Public Liability Insurance on a Comprehensive General Liability form with limits of not less than \$500,000 per occurrence to protect the Borrower during the construction phase from claims involving bodily injury and/or death and damage to the property of others. Such Comprehensive General Liability Insurance shall be endorsed to include owners' and contractors' protective coverage.

(d) Vehicle Liability Insurance with limits of not less than \$300,000 for one person and \$500,000 for more than one person to protect the Borrower from claims for bodily injury and/or death, and not less than \$50,000 against claims for damage to property of others arising from the Borrowers' operation of vehicles. Such insurance shall include coverage for employers' owned, non-owned and/or hired vehicles, where applicable.

(e) Builders Risk Insurance to be written on an All Risk Completed Value form, in an aggregate amount equal to 100% of the completed insurable value of the building(s). If the building(s) or any part is to be occupied prior to its acceptance from the contractor, the Borrower must either (a) obtain an endorsement of the policy permitting occupancy during completion of construction, or (b) secure permanent fire and extended coverage insurance including a permit to complete construction. In either event the consent of the surety, who provides the construction performance-payment bond, must be obtained. The Builders Risk Insurance policy shall name the Borrower as the Insured and name, as additional

insured, the general contractor, other contractors and subcontractors, as their interests may appear. Each policy shall carry a standard form Mortgage Clause showing loss, if any, payable to the United States of America acting by and through the Secretary, Department of Housing and Urban Development, his/her successor or assign, as their interest may appear.

5. Permanent Insurance

Upon acceptance of the project, or any portion thereof from the contractor, the Borrower shall provide evidence of the following hazard insurance and bonding coverages. In some instances, continuation of the insurance and bonding obtained for the construction period, with proper endorsements thereto, will be acceptable. In any event, the Borrower shall assure that there is no gap period in insurance protection during the transition from the Builders Risk Insurance to the Permanent Insurance.

(a) Blanket Fidelity Bond covering all officials and employees, including noncompensated officers of the Borrower, in an amount equal to two months' gross revenues or \$50,000 whichever is greater, unless greater amounts are required by the Borrower. (Where the gross revenues for a project are substantially below the minimum \$50,000 bonding requirement for operation, the bond shall be reduced to that sufficient to cover two months' gross revenues.)

(b) Public Liability Insurance on a Comprehensive General Liability form with limits of not less than \$500,000 per occurrence to protect the Borrower from claims involving bodily injury and/or death and property damage which may arise from the Borrower's operations, including any use or occupancy of its facilities, grounds and structures, and shall include independent contractors coverage, where applicable.

APPENDIX 28

(c) Vehicle Liability Insurance. If the Borrower owns or operates a vehicle in the operation of the project, including non-owned and/or hired vehicles operated for the benefit of the Borrower, the Borrower shall procure and maintain Vehicle Liability Insurance. Such insurance shall provide for limits of liability of not less than \$300,000 for one person and \$500,000 for more than one person to protect the Borrower from claims for bodily injury and/or death, and not less than \$50,000 against claims for damage to property of others.

(d) Workers' Compensation and Employers' Liability Insurance (statutory or voluntary) for all employees of the Borrower and other facilities, the revenues of which are pledged to project operations.

(e) Fire and Extended Coverage Insurance shall be provided on a blanket basis or with an agreed amount clause in amounts not less than 80% of the projects current insurable value. Such insurance shall include the project building(s) and its Borrower-owned contents, as well as on building the revenues of which are pledged to secure the loan. Such insurance

policies shall name the Borrower as the Insured and shall carry a standard Mortgage Clause showing loss or damage, if any, payable to the Borrower and the United States of America acting by and through the Secretary, Department of Housing and Urban Development, his/her successors or assigns, as their interest may appear.

The insurable value shown on the Property Insurance Schedule, Form HUD-92329, shall be periodically updated using available residential building cost indices. The amount of property insurance on the project shall be adjusted accordingly to maintain the amount of insurance to 80% of the current insurable value.

(f) Boiler Insurance and Inspections.

(1) Coverage. If boilers located in the project are other than steam boilers, specific Boiler Explosion Insurance generally is not required. If there is a steam boiler in operation in connection with the project, specific Boiler Explosion Insurance is required. In determining the adequacy of the amount of this coverage there must be careful review and consideration of all the facts and exposures for the purpose of estimating the maximum possible amount of a single loss by steam boiler explosion. The minimum limit of Boiler Explosion Insurance, when required, is \$100,000 per accident, per location. After careful examination of all the related information in any given case, it may be determined this required minimum limit of \$100,000 is inadequate. In that event a greater amount of coverage shall be provided. Determination of the amount is the responsibility of the Borrower.

3/83

Page 4

4571.1 REV-2

APPENDIX 28

(2) Policy form. Boiler Explosion Insurance, as herein required, shall be evidenced by a standard form of Boiler and Machinery policy broad form, including Repair and Replacement and excluding Bodily Injury, showing the Borrower as the insured and shall have attached a standard Mortgage Clause showing loss or damage, if any, payable to the United States of America acting by and through the Secretary, Department of Housing and Urban Development, his/her successors or assigns, as their interest may appear.

(3) Inspection requirements. All directly fired boilers (including steam, hot water heating and hot water supply boilers) and hot water supply tanks indirectly fired with steam shall be subject to inspection annually except: hot water boilers and hot water supply tanks which are equipped with ASME labeled pressure relief valves and do not exceed any of the following limitations:

- (a) a heat input of 200,000 BTU/hour
- (b) a water temperature of 210 deg F (99 C)
- (c) a water containing capacity of 120 gallons

The annual inspection shall be conducted by either:

- (a) a State or local inspection facility or other authorized inspection service created by State or local law to inspect boilers, or
- (b) an insurance company which has been licensed or registered by a State or locality and whose inspection services are acceptable under State or local ordinances.

(g) Use and Occupancy (Rental Value) Insurance shall be procured on each building, the revenues of which are pledged to payment of debt service requirements. The amount shall be sufficient (in the event of a loss) to enable the Borrower to deposit in an escrow account and make required debt service payments from the proceeds of such insurance. The amount must equal the sum that would normally have been available for such purposes from the revenues of the damaged building(s) during the time the building(s) is non-revenue producing due to loss of use caused by the perils covered by fire and extended coverage insurance. Each such rental value insurance policy shall contain a standard Mortgage Clause making loss or damage, if any, payable to the United States of America acting by and through the Secretary, Department of Housing and Urban Development, his/her successors or assigns, as their interest may appear.

4571.1 REV-2

APPENDIX 28

(h) Burglary and Robbery Insurance (optional).

(1) Recommended types of coverage. In the event the Borrowers decides that burglary and robbery coverage is to be carried, only safe burglary, interior robbery and messenger robbery are recommended. Broad form money and securities insurance is not recommended unless it can be secured for a premium not in excess of the premium for the safe burglary, interior robbery, and messenger robbery coverage.

(2) Overnight protection of funds. If funds are retained in the project office overnight, the purchase of a safe is recommended. If burglary insurance is carried and a reduction in premium sufficient to justify the cost will result, not less than an "E" classification burglary resistive safe is recommended. When burglary insurance is not carried, the type of safe purchased should depend on the amount of funds left in the project office overnight.

6. Flood Insurance. (Required whenever the property is located in an area of special flood hazards in which flood insurance is available under the National Flood Insurance Act.)

_____ REQUIRED

_____ NOT-REQUIRED

Flood insurance shall be provided for the subject property during the term of the mortgage loan. The insurance shall be in an amount at least equal to the outstanding principal balance of the loan, or the

maximum amount of insurance available with respect to the project under the National Flood Insurance Act, whichever is lesser. The policy shall show the Borrower as insured and shall show loss, if any, payable to the United States of America acting by and through the Secretary, Department of Housing and Urban Development, his/her successors or assigns, as their interest may appear.

7. Reporting losses and accidents. The Borrower is responsible for the prompt reporting of any losses or accidents to the insurance carriers.

8. All insurance loss settlement drafts and checks where HUD and the Borrower are joint payees should be forwarded to the HUD Field Office Manager/Supervisor who shall handle them in accordance with the procedures contained in HUD Handbook 4360.1, Chapter 7, Section 13.

Department of Housing and Urban Development

By _____
(Authorized Agent)