

# Property Insurance Requirements

For Section 202 of the Housing Act of 1959  
or Section 811 of the National Affordable Housing Act

U.S. Department of Housing  
and Urban Development  
Office of Housing  
Federal Housing Commissioner

OMB Approval No. 2502-0470  
(Exp. 5/31/2010)

Public reporting burden for this collection of information is estimated to average 1 hour per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. HUD may not collect this information, and you are not required to complete this form, unless it displays a currently valid OMB control number.

This information collection is necessary to ensure that viable projects are developed. It is important to obtain information from applicants to assist HUD in determining if nonprofit organizations initially funded continue to have the financial and administrative capacity needed to develop a project and that the project design meets the needs of the residents. The Department will use this information to determine if the project meets statutory requirements with respect to the development and operation of the project, as well as ensuring the continued marketability of the projects. This information is required in order to obtain benefits. This information is considered non-sensitive and no assurance of confidentiality is provided.

Owner's Name, Street Address, City, State, Zip	Project No.	Date
	Project Name	
	Project Location	

1. Reference is made to the Regulations of Section 202 of the Housing Act 1959 or Section 811 of the National Affordable Housing Act under which capital advances on the above property were made by HUD.

2. This notice is for the purpose of advising the Owner of HUD's Requirements as to the types and amounts of Hazard Insurance necessary to be maintained upon the subject property and of the estimate by HUD of the Total 100% Insurable Value of the property. The attention of the Owner is directed to the fact that these Requirements, with respect to the types and amounts of Hazard Insurance to be maintained, are continuous Requirements, as long as HUD holds a mortgage upon the property. It is the duty of the Owner to maintain insurance in types and amounts necessary to comply with the Requirements hereinafter stated and as stated in the mortgage.

3. (a) Attached hereto and made a part hereof is Property Insurance Schedule, HUD-92329, constituting HUD's estimate of the Total 100% Insurable Value of the property. The Property Insurance Schedule of Insurable Value 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, drains. These items are generally **excluded** from the Property Insurance coverage. 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

Concurrently or prior to the issuance of a mortgage by HUD (or release of any capital advance for construction of the property) the owner shall provide a certified duplicate copy of:

(a) 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 Owner 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 Owner 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.

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

(c) Blanket Fidelity Bond covering all officials and employees, including noncompensated officers, in an amount equal to the average anticipated capital advance 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 circumstances should a bond exceed \$500,000. Projects using modular components and projects for which the average capital advancements are expected to exceed \$500,000 shall establish an escrow with a title company to handle all advancements during the course of construction. In cases where a title company is utilized, no fidelity bond is required for the Owner until the project enters the operating

period.

(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 Owner for claims for bodily injury and/or death, and not less than \$50,000 against claims for damage to property of others arising from the Owner's operation of vehicles. Such insurance shall include coverage for employers' owned, non-owned and/or hired vehicles, where applicable.

(e) Director and Officers (D&O) Liability Insurance generally is available as part of a hazard insurance policy package. If the coverage is not available as part of a package, the project still may purchase the insurance if the cost is not excessive. HUD has no standard form of D&O Liability Insurance; therefore, the project representatives should explore this coverage with their current carrier. The reasonableness of the premium can be determined by soliciting more than one bid, and comparing the expense of this insurance to other project line item expenses.

In some States, legislation permits nonprofit corporations to indemnify directors and officers for liability they may incur for negligence acts or breach of duty. However, HUD does not permit an Owner to indemnify its directors and officers unless so **required** by State law. Owners, therefore, must check with the local HUD Field Office.

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

## 5. Permanent Insurance

Upon acceptance of the project, or any portion thereof from the contractor, the Owner shall provide a certified duplicate copy of the following hazard insurance and fidelity bond 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 Owner shall assure that there is no gap period in insurance protection during the transition from the Builders Risk Insurance to the Permanent Insurance.

(a) 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 Owner-owned contents, as well as on building the revenues of which are pledged to secure the mortgage. Such insurance policies shall name the Owner as the Insured and shall carry a standard Mortgage Clause showing loss or damage, if any, payable to the Owner 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.

(b) Use and Occupancy (Rental Value) Insurance shall be procured on each building. 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.

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

(d) Blanket Fidelity Bond covering all officials and employees, including noncompensated officers of the Owner, in an amount equal to two months' gross revenues or \$50,000 whichever is greater, unless greater amounts are required by the Owner. (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.)

(e) Vehicle Liability Insurance. If the Owner owns or operates a vehicle in the operation of the project, including non-owned and/or hired vehicles operated for the benefit of the Owner, the Owner 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 Owner from claims for bodily injury and/or death, and not less than \$50,000 against claims for damage to property of others.

(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 Owner.

(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 Owner 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°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) 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. The insurance shall be in an amount at least equal to the outstanding principal, 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 Owner 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.

(h) Director and Officers (D&O) Liability Insurance may be obtained or continued as provided under 4.(e) above.

(i) Burglary and Robbery Insurance (optional).

(1) Recommended types of coverage. In the event the Owner 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 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.

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

## 6. Insurance Carriers

The acceptability of insurance carriers, types of coverage and the forms, conditions, amounts and scope of insurance policies are the responsibilities of HUD. The Secretary will accept, as a temporary document of proof of coverage, Certificates of Insurance, Insurance Binders or Memoranda of Insurance until such time a certified duplicate copy of the policy(ies) is received. A certified duplicate copy of all policies shall be sent to:

U.S. Department of Housing and Urban Development  
ATTN:Management Branch  
451 7th Street, SW Room 6114  
Washington, DC 20410-8000

## 7. Reporting losses and accidents

The Owner is responsible for the prompt reporting of any losses or accidents to the insurance carriers and to HUD.

## 8. Loss Settlement Drafts and Checks

(a) Loss settlement drafts and checks in settlement of losses sustained under any of the aforementioned insurance coverages shall always include the Secretary of HUD as payee.

(b) Loss settlement drafts and checks should be forwarded to the HUD Field Office Director having jurisdiction over the area in which the property sustaining the loss is situated, and the Director is responsible for the endorsement and release of such instruments on behalf of the Secretary of HUD.

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**U.S. Department of Housing and Urban Development**

By (Authorized Agent)