Section II
Production

Chapter 14
Insurance Requirements

14.1 Introduction

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

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

B. **All policies must:**

1. Be written on a per occurrence basis except for earthquake and professional liability coverage, which may be written on a per claims/claims made basis~~;~~. A claims made commercial general liability coverage is allowed when that coverage is combined with a HUD compliant claims made professional liability policy;;

2. Have a cancellation provision requiring the carrier to notify the Lender at least 30 days in advance of policy cancellation for any reason except non-payment of premium;

3. Include a cancellation provision that provides for at least a 10-day written notification to the Lender for nonpayment of premium; and

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

5. Contain a mortgagee clause acceptable to HUD and a Lenders Loss Payable Endorsement solely naming the Lender. An acceptable mortgagee clause would be:

   Lender Name, Its successors and/or assigns, As their interest may appear, Lender's Street Address or PO Box, Lender's City, State and Zip Code.

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

C. **Policy Requirements:**

1. Each policy must either have a term of at least one year at the time of closing the mortgage loan; or

2. Have a term with less than 12 months (but not less than 30 days without proof of renewal) remaining at the time of closing the Mortgage Loan, so long as the policy contains the required coverage or the required coverage is being added to the existing policy. The Lender must collect funds at Closing and during the months following Closing to ensure adequate funds will be on deposit with the Lender to pay the next premium by its scheduled due date.

D. **~~Financing~~Payment of Premiums:**
~~All premiums covering the first full year for existing or new property~~Premiums for all required insurance policies must either be~~ ~~:

- paid in full ~~at Closing. Premiums for General Liability and Professional Liability policies may be paid through an alternative~~annually; or
- payable in installments, with receipts confirming timely payment~~ plan (e.g., monthly or quarterly) approved, and approval~~ in writing by the Lender and the insuring entity~~. The~~..

If the Borrower ~~shall not finance~~finances premiums~~ for renewals of any policy covering,~~ the ~~physical damage to collateral~~Lender must review a copy of the ~~loan~~financing agreement and confirm that a timely payment of each premium has been made. The premium finance agreement must be reviewed for consistency with this chapter.

E. **Evidence of Insurance:**
The Borrower must provide to the Lender evidence of insurance for the Property on or before the date of Closing of the Mortgage Loan or the policy's renewal date. Evidence of insurance coverage for the Property must be provided as follows:

- ACORD 28 – "Evidence of Commercial Property Insurance" (most recent version or per state requirements if applicable), combined with ACORD 25 – "Certificate of Liability Insurance";

- ACORD 75 – "Insurance Binder"; or

- Mortgage Bankers Association (MBA) Evidence of Insurance – Commercial Property Form. In states where the MBA form is filed and approved, the appropriate state form must be used. Otherwise, the most recently revised MBA form should be used, which can be found at: http://www.mba.org

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

- Permanent Evidence – The following are acceptable forms of permanent evidence of insurance:

- The original or duplicate copy of each current insurance policy, which must be received, reviewed and placed in the Lender's Servicing File within 90 days after the delivery of the Mortgage Loan or the date of the insurance policy renewal. Except for an NFIP policy, only the complete insurance policy is sufficient evidence of coverage. Insurance policy declarations pages, single policy endorsements, insurance binders and certificates of insurance are not an acceptable form of permanent insurance coverage. The Policy Declaration page of an NFIP policy is acceptable evidence of the flood insurance coverage referenced thereon.

- For Properties securing a Mortgage Loan with an Unpaid Principal Balance ("UPB") of $10 million loan or below, the "MBA Evidence of Insurance – Commercial Property Form" is acceptable under the following conditions:

    - Form must be complete in its entirety;

    - Form must have an original signature of an individual authorized to execute the "Evidence of Insurance" on behalf of the insurance carriers issuing each policy of Property Insurance described on the form; and
    - In states where the form is filed and approved, the appropriate state form must be used, otherwise the most recently revised MBA Evidence of Insurance – Commercial Property Form should be used.

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

- HUD and Lender recognize that some insurance carriers use "boiler plate" policies that do not change from year to year. In these cases, the Lender may keep a specimen kit or library of such policies and endorsements, requesting only the renewal Declarations Page along with a list of endorsements as permanent evidence of insurance. The Lender must confirm in writing that the policies on file are current and continue to be in compliance with all HUD Section 232 Insurance requirements.

- ~~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.~~

- If the Borrower fails to maintain any required insurance on a property, the Lender must obtain the required coverage. HUD relies upon the Lender to ensure that the borrower has sufficient current insurance as required by Program Obligations, HUD will seek administrative and/or civil action against the lender and/or other parties to redress instances in which a borrower has insufficient evidence of coverage or an uninsured loss occurs.

14.2 Blanket Policies

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

A. The policy provides the same or better insurance coverage as a single property insurance policy. This includes per-occurence coverage amounts greater than or equal to the coverage amount requirements as stated in this chapter, and deductible amounts less than or equal to the deductible amount requirements as stated in this chapter;

B. The property is listed and identifiable in the policy or associated schedules; and

C. The policy complies with all other applicable requirements contained in this Chapter.

D. The Lender must document the Lender's analysis of any Blanket Policy in the Lender's servicing file.

14.3 Property/Casualty Insurance Carriers

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

A A.M. Best Company general policyholder's rating of "A-" or better~~ and a financial performance index rating of "VI" or better in Best's Insurance Reports or Best's Key Rating Guide~~.

~~B. Financial Stability Rating of "A" of better from Demotech.~~

~~C~~B. Various state-wide pools (if it is the only coverage that can be obtained) or flood companies approved under the National Flood Insurance Program (NFIP). Carrier must be licensed to do business in the United States.

14.4 Insurance Data Requirements

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

- **Name of Insurer;**
- **Name of ~~Insured/~~Borrower and all insured parties;**
- **Coverage Amount;**
- **Deductible~~;~~ Amount(s);**
- **Expiration Date;**
- **Policy Term;**
- **Description of Property Insured: and**
- **Coinsurer and ~~percent~~Coinsurance percentage, if applicable.**

14.5 Property Insurance Requirements

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

A. **Property Damage** ("Special Form")

What's Required	"Special Form" (formerly referred to as "All Risk") Property Insurance
When Does it Apply?	All property types.
Amount of Coverage	• ~~90%~~The borrower must provide casualty insurance with a face amount that is the lower of~~ Estimated Replacement Cost.~~: the balance of the insured mortgage or the balance of or 80% of Insurable improvements. Policy must be free from coinsurance.
Maximum Deductible	• $25,000 per occurrence for a portfolio (aka blanket) 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.

1. ~~The 90% of Estimated Replacement Cost Value (as defined by the~~The Insurable Value Calculation contained in the 3rd party Project Capital Needs Assessment~~)~~ 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. If the Builders Risk Insurance or the Permanent Fire and Extended Coverage Insurance does not insure these items, then an amount acceptable to the Mortgagee will be deducted from the Assistant Secretary for Housing-Federal Housing Commissioner's estimate of the ~~90~~80% of Estimated ~~Replacement Cost~~Insurable improvements for the purpose of estimating the amount of Builders Risk Insurance or the amount of Permanent Insurance.

If the Estimated Replacement Cost is not provided in the PCNA, a report using valuation software such as Marshall and Swift or similar industry recognized software may be submitted to provide the ~~Estimated Replacement Cost~~value of Insurable improvements.

Please note that "Replacement Cost New," a value sometimes found on the appraisal, should **not** be used for the purpose of the Estimated ~~Replacement Cost~~Insurable improvements calculation because "Replacement Cost New" may include uninsurable items.

For Estimated ~~Replacement Cost~~Insurable Value of New Construction projects, please see the Lender's ~~Architectural Reviewer~~Architecture and Cost ~~Analyst's~~Report Statement of Work located on the Section 232 Program website.

2. The following exclusions from "Special Form" insurance policies are acceptable:
   a. War or Military Action,
   b. Nuclear Hazard,
   c. Volcanic eruptions,
   d. Fraudulent or dishonest acts committed by the insured,
   e. Dispersal, release or escape of contaminants, or pollution (biological and chemical agents), Windstorm, flood and earth movement exclusions also are acceptable, provided a separate policy or coverage is obtained for these exclusions, as specified elsewhere in this chapter.

B. Ordinance ~~and~~or Law Coverage

What's Required	Ordinance ~~and~~or Law Coverage
When Does it Apply?	Properties that contain any type of non-conformance under current building, zoning, or land use laws or ordinances and cannot be rebuilt "as is". 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.
Amount of Coverage	• Coverage A - Loss of Undamaged Portion of the Property: Equal to ~~100~~50% 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. Applicable deductibles shall be no greater than property insurance deductible.

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 14.5.A.1) of the building(s) that house the equipment. Coverage must be free from coinsurance.
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.**

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 limits so that the sum of both equals the sum of the limits required in a. plus b. above~~
~~d. Use of Blanket Policies must comply with the requirements of this Program Guidance.~~

~~4. Commercial General Liability Insurance Maximum Deductibles:~~

~~a. $25,000 deductible/SIR (self-insured retention) for portfolio and/or single asset Mortgage Loans with Properties less than or equal to $100 million in total replacement values, as listed in the Property policy~~
~~b. $100,000 deductible/SIR for portfolios and/or single asset Mortgage Loans with Properties greater than or equal to $100 million in total replacement values, as listed in the Property policy.~~

What's Required	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.
When Does it Apply?	Applies to all property types
Amount of Coverage	Minimum Coverage a. Primary coverage amount: $1 million per occurrence/$2 million minimum general aggregate limit per location, plus b. Minimum Excess/Umbrella Liability Insurance (above the primary) is required per the Excess/Umbrella Insurance Requirements Chart below c. The minimum required coverage limit shall be satisfied by adding any combination of primary and umbrella/excess per occurrence and aggregate limits so that the sum of both equals the sum of the limits required in a. plus b. above d. Use of Blanket Policies must comply with the requirements of this Program Guidance.
Maximum Deductible	See the chart below for Commercial General Liability Insurance Maximum Deductibles.

Excess/Umbrella Insurance Requirements

If the number of units in the building is..	The minimum excess/umbrella insurance coverage is ..
More than 100 units < 200 units	$ 5 Million
200 units or greater < 299 units	$ 8 Million
300 units or more	$ 10 Million

Commercial General Liability Insurance Maximum Deductibles.

If the Insurable Value is ..	The maximum deductible amount per occurence is ..
Less than $ 5 Million	$ 40,000
Equal to or greater than $5 Million, but less than $50 Million	$ 50,000
Equal to or greater than $50 Million, but less than $100 Million	$ 125,000
Equal to or greater than $100 Million	$ 275,000

Per Occurrence vs. Claims Made. The General Liability policy may be either:

a. An “occurrence” policy, which provides coverage regardless of when the claim is reported, as long as the occurrence giving rise to the claim occurred during the original policy period; or

b. A “claims-made” policy, which provides coverage for claims that are brought to the insurer during the policy period or during a designated, extended reporting period beyond the policy expiration date. Since the term of the policy is normally one year, the Borrower must also provide extended reporting period insurance coverage (“tail coverage”) if the policy renewal does not cover claims from prior years. The tail insurance provides coverage for an extended period that shall be based on the maximum statute of limitations for filing claims of negligence, injuries, wrongful death, and/or improper care for the various States where the facilities are located.

General Liability and Professional Liability Insurance coverages stated above are separate limits. Alternatively, if General Liability and Prossional Liability limits are combined, then a combined overall aggregate limit must be at least 80% of the sum of the separate limits addressed above.

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

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

E. **Directors' and Officers' Liability Insurance**

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.

F. **Commercial Auto Liability Insurance**

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 borrower owns or hires any vehicle in its name or if individuals use their own vehicles for business purposes, then Commercial Auto Liability Insurance must cover those vehicles. This also applies during the construction period.
Amount of Coverage	$1 million combined single limit. Coverage limit must be reinstated after each loss.

14.7 Additional Insurances

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

A. **Business Income Coverage**

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	• Actual loss sustained or minimum of most recent 12 months net income plus ongoing expenses and other ongoing obligations, including the full mortgage payment, MIP and reserve deposits. • 180-Day Extended Period of Indemnity. Provides an additional 180 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.

B. **Earthquake**

What's Required	Earthquake Insurance

When Does it Apply?	Earthquake Insurance is required for all properties located in Seismic Zones 3 or 4 that meet the Property risk factors listed below:
	• Properties located in Seismic Zones 3 or 4:
	  o reinforced masonry buildings and pre-cast concrete or tilt-up buildings constructed prior to1994;
	  o reinforced concrete frame or reinforced concrete shear wall buildings constructed prior to 1976;
	  o 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);
	  o wood frame buildings without anchorage to foundation; or,
	  o any building with a weak (soft) story at the first level above grade.
	• Properties located in Seismic Zone 4 only:
	  o 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,
	  o buildings with tuck-under parking constructed prior to 1988.
	• PML Study
	A level I, Seismic Risk Assessment (Probable Maximum Loss [PML] Study) is required for any Mortgage Loan:
	  ▪ greater than $25 million, or
	  ▪ secured by a Property having one or more of the above risk factors.
	The PML study will be performed by the engineer performing the PNA so long as such engineer is also qualified to perform geological assessments.
	
	Acceptable Level of Seismic Risk
	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% (a level less than or equal to 20% is acceptable). If the Property has a PML that exceeds 20%, but is less than or equal to 40% (using the 10%/50-year exceedance probability standard), a

	waiver will be required. **<u>Ineligible Properties</u>** 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: ▪ 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	• 100% of the full replacement cost of the Property Improvements. Business income coverage for 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 plus a 180- day extended period of indemnity (as otherwise specified in this Program Guidance). 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.

C. **Builder's Risk Insurance**

What's Required	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, as their interests will appear.
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.

D. **Workers' Compensation**

What's Required	Statutory Workers' Compensation and Employer's Liability Insurance
When Does it Apply?	Where employees of the Borrower, Management Agent, where applicable and Operator, where applicable are required to be covered by workers' compensation laws of the state where the Property is located.
Amount of Coverage	• Employer's Liability with a limit of $1 million; and, • Statutory Limits for compensation. • <u>If an individual state law differs from the amounts required by this Worker's Compensation provision, the Lender will provide evidence of a policy that is equal to the amount of coverage required in this section.</u>

E. **Fidelity Bond/Crime Insurance**

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: • All principals of the borrower, management entity, if applicable, the operating entity, where applicable 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	• 2 months of Effective Gross ~~Potential~~ Income of the project • If coverage is for more than one project, the minimum is computed using the project with the highest ~~gross potential income.~~Effective Gross Income.
Maximum Deductible	$25,000 per property.

F. **Sinkhole/Mine Subsidence Insurance**

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.

G. **Windstorm Coverage**

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. Business income: Actual loss sustained or minimum most recent 12 months net income plus ongoing expenses and other ongoing obligations, including the full mortgage payment, MIP and reserve deposits. 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 up to $250,000 per occurrence. *Business Income should not be subject to a deductible or waiting period greater than two weeks.

H. **Flood Insurance**

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.

   In addition to the initial flood-zone determination, which is used for underwriting, Lenders must also obtain from their flood-zone determination firm "life-of-loan" monitoring and coverage, for every insured mortgage, regardless of whether or not the project is initially in a floodplain – See section H.2 below.

What's Required	Flood Insurance
When Does it Apply?	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. 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.
Amount of Coverage	100% of replacement cost of Improvements located in an SFHA; and Business income coverage for 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 plus a 180-day extended period of indemnity (as otherwise specified in this Program Guidance) for Improvements located in an SFHA. Business Income coverage is required even if written on a stand-alone basis. -Full replacement cost can be achieved by a standalone policy equal to 100% replacement cost; or by securing an 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.

	If 100% of the full replacement cost coverage is unavailable (as demonstrated by letters of declination from three unrelated third party insurance companies), Lender may accept the maximum amount of coverage available per building of NFIP coverage. 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. 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. Moreover, acceptance of the NFIP coverage does not negate the requirement for business income coverage. A separate policy must still be obtained to cover the business income exposure associated with a flood, in the amounts set forth above.
Maximum Deductible	5% of the replacement cost of the Mortgaged Property.

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 that flood insurance is obtained if any property improvements are later determined to lie within a remapped SFHA.

b. If conditions warrant, HUD or the Lender will require flood insurance for Property Improvements located outside of an SFHA but within an area designated by FEMA as Zone X, such as a Property that is in an area subject to flooding due to storm water or within close proximity to an SFHA boundary.

~~1.~~2. Flood Insurance Determination: For every Mortgage Loan, the Lender must *determine whether any of the Property Improvements are located in an SFHA and must document each determination on a Standard Flood Hazard Determination form issued by FEMA (FEMA Form 086-0-32). The Lender must obtain flood-zone determinations from a qualified third-party flood-zone determination firm.* The Lender must place a completed copy of the Standard Flood Hazard Determination form in the Lender Servicing File for the Mortgage Loan. HUD expects the Lender to exercise care and sound judgment when it selects and contracts with a third-party flood-zone determination firm.

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

~~2.~~3. The flood insurance policy must be 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" (WYO) program. For a list of FIP Insurers and FIP WYO insurers, please visit the FEMA website.

14.8 Lender Responsibilities

The Lender is responsible for reviewing insurance coverages and ensuring that they are in compliance with ORCF requirements as part of the application submission. The Lender's Certification – Insurance Coverage, Form HUD-92435-ORCF, is required for closing, and the Lender should review insurance coverages for compliance at the application stage and provide an explanation of any coverages that will be modified prior to closing. In addition, note that any anticipated increase in ongoing expenses as a result of obtaining compliant coverage levels should be considered in the Lender's underwritten NOI for Debt Service Coverage.

If the project's current insurance coverage does not meet the ORCF requirements, the lender must specify Special Conditions to the Firm Commitment as applicable.

Any requests for waivers of compliant insurance coverage levels must be submitted with the application package and must provide justification as to why a different coverage level is appropriate, and the risk to HUD mitigated. The request must be accompanied by a minimum of three insurance quotes for compliant coverage levels. These quotes may include responses of declination of coverage for the compliant coverage level.

ORCF's expectation is that the Lender will review a transaction's current coverage levels, or ability to obtain compliant coverage levels, prior to application submission. Lenders should not delay this review until the closing process, as it will create delays in closing the transaction. The Lender's Certification – Insurance Coverage, Form HUD-92435-ORCF, is required for closing.

The servicing lender is responsible for ensuring ongoing compliance with the 232 program insurance requirements over the life of the loan. (Section III, Chapter 3).