BedfordLending

HUD Multifamily Property Insurance Requirements

This document is intended to consolidate insurance requirements for a variety of scenarios for ease of review. For the actual HUD **"Property Insurance Requirements"** form, please see - **https://www.hud.gov/sites/dfiles/OCHCO/documents/92447.pdf**

The above HUD form defines the "Insurable Value" referenced below.

General Policy Requirements
- Cancellation provisions must afford the Lender notification of cancellation at least 30 days prior to any policy reduction or cancellation; except for instances of non-payment where at least 10 days' notice is acceptable
- Policy should be for a term of no less than one year; unless coverage is provided on an existing policy that has less than 12 months remaining in its current term
- ACORD 28 forms for property and ACORD 25 for general liability will be considered acceptable evidence of temporary insurance at closing and upon each subsequent renewal, with full policies due to lender within 90 days of renewal
- Coverage must be provided by insurance companies that carry an AM Best rating of B+ or better
- Property address must be clearly identified on all evidence; with mortgagor listed as a named insured on all policies

Property
- Peril form must be written using Special Peril Coverage (without exclusions for Wind/Hail and Named Storm)
- **Limit of coverage must be equal to the lesser of 80% of the insurable value (with a 3% annual inflationary increase) or the current Unpaid Principal Balance (UPB)**
- **Deductibles may not exceed the greater of $50,000 or 1% of the insurable value for any building, up to a maximum amount of $250,000 per location.**
- A current statement of values must be provided for any policies written on a blanket basis

Business Income
- Coverage for business income must be included for all required coverages including windstorm, flood, earthquake, terrorism, etc.
- Required in an amount equal to Actual Loss Sustained for 12 months or Effective Gross Income from most recent annual reporting.

Ordinance or Law
- Ordinance and Law is required for properties that represent "non-conforming" uses under current building, zoning, or land use laws or ordinances
  - Coverage A (loss to undamaged portion) must equal to the property limit required
  - Coverage B (demolition cost) & Coverage C (increased period of restoration) must equal 10% of the property limit required each or 20% when combined

Boiler & Machinery/Equipment Breakdown

- Required for any buildings with high-pressure, centralized HVAC, boilers, or other vessels in operation
- Coverage must be equal to $100,000 per accident for each building that houses the equipment
- Deductibles are subject to maximums outlined in property section above

Flood

- Coverage is required for any improvements located in a SFHA starting with ‘A’ or ‘V’
- Required coverage must equal the greater of the maximum limit available through the National Flood Insurance Program (NFIP) or the insurable value for the first 2 floors above grade, in addition to any improvements below grade
- Deductibles may not exceed the greater of $50,000 or 1% of the insurable value for any building, up to a maximum amount of $250,000

Earthquake

- Required for properties located in seismic zones 3 or 4 with a PML greater than 20%, as indicated by the Seismic Risk Assessment
- Coverage must be equal to 100% of the insurable value
- Deductible cannot exceed the greater of $50,000 or 1% of the insurable value for any building up to a maximum of $250,000

Wind/Hail

- Limit of coverage must be equal to the lesser of 80% of the insurable value (with a 3% annual inflationary increase) or the current Unpaid Principal Balance (UPB)
- Deductibles may not exceed the greater of $50,000 or 5% of the insurable value for any building, up to a maximum amount of $475,000 per location.

Named Storm

- Required for all properties located in coastal states
- Limit of coverage must be equal to the lesser of 80% of the insurable value (with a 3% annual inflationary increase) or the current Unpaid Principal Balance (UPB)
- Deductibles may not exceed the greater of $50,000 or 5% of the insurable value for any building, up to a maximum amount of $475,000 per location.
- Must include Business Income coverage equal to Actual Loss Sustained for 12 months or Effective Gross Income from most recent annual reporting

Liability

- **General Liability coverage must provide at least $1M per occurrence & $2M aggregate**
- **Deductible may not exceed $250,000**

Fidelity Bond/Crime Coverage

- Required for properties in which the borrower has employees on-site
- Coverage is required in an amount equal to the greater of $50,000 or 2 months’ income

Commercial Auto

- Commercial Auto Liability is required for locations with owned autos, in addition to Hired and Non-Owned Auto Liability that is required for all locations
- Auto liability must be equal to at least $500,000

Construction

- **General Contractor General Liability coverage is required in amounts not less than $1M per occurrence & $2M aggregate during the construction phase**
- Architects Errors and Omissions/Professional liability is required in amounts not less than $1M or 10% of the construction contract during the construction phase
- Builder's Risk coverage must be insured at 100% of “insurable value” for new construction (see the HUD 92447 form linked at the top of the document for further detail).
  - The actual “insurable value” amount will be determined as part of the cost review report completed during underwriting.
  - Builder's Risk must include 5% soft cost coverage and permission to occupy.
  - For rehabilitations (versus new construction) builder’s risk is not required unless existing permanent coverage specifically excludes renovations on the property policy (subject to review).
  - For projects with multiple buildings, the coverage amount of builder's risk is only for the buildings currently under construction as each building phase begins.

Lender Clause for Mortgagee, Loss Payee & Additional Insured
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