

CHAPTER 9: INSURANCE REQUIREMENTS

9.1 INTRODUCTION

Insurance protects the GRRHP loan against loss or damage. Lenders must review the borrower’s insurance policies to confirm that the coverage is adequate to protect against financial loss due to property damage, employee dishonesty or error, and personal injuries that occur on the property. Lenders intending to sell GRRHP loans in the secondary market must require insurance coverage consistent with the standards of Fannie Mae, Freddie Mac, or Ginnie Mae.

KEY TOPICS IN THIS CHAPTER

- Types of Insurance
- Acceptable Coverage
- Authorized Providers

Lenders must continue to monitor the insurance policies over the term of the loan so that each GRRHP property is continuously insured with acceptable property and liability insurance policies. The named insured must be the borrower. Insurance policies must also include the lender in a loss payee/mortgagee clause.

The following section identifies the types of insurance and the specific provisions that must be included in the policy.

SECTION 1: OVERVIEW OF INSURANCE REQUIREMENTS

9.2 OVERVIEW

Described throughout this chapter are the different types of Agency insurance requirements for the GRRHP program. At a minimum, lenders must establish insurance standards for GRRHP loans that meet or exceed the insurance requirements of Fannie Mae, Freddie Mac, or Ginnie Mae. Failure to ensure that proper insurance is maintained on the property may result in denial of the guarantee payment by the Agency.



SECTION 2: TYPES OF INSURANCE

9.3 PROPERTY INSURANCE

Property insurance protects the physical asset against loss due to damage. Property insurance includes:

- **Hazard Insurance** to protect the property against fire and weather-related damage, as well as damage from civil commotion, aircraft, or other vehicles. The policy must be endorsed to include all the extended coverage perils. An “all risks” policy is recommended.
- **Flood Insurance** to protect the property against losses caused by flooding due to natural disasters such as hurricanes. Flood insurance through NFIP is required for all properties located in a Special Flood Hazard Area (“SFHA”) as identified by FEMA. For every GRRHP loan, the lender must complete *FEMA Form 81-93, Standard Flood Hazard Determination*, and must determine whether any of the improvements on a property are or will be located in a SFHA. See Chapter 11, Paragraph 11.7 A. for additional requirements.
- **Builder’s Risk Insurance** to protect the property against loss or damage during construction or reconstruction after an insured loss. Builder’s risk insurance is required during all periods of construction, reconstruction and rehabilitation.
- **Boiler and Machinery Coverage** may be required for any property that operates steam boilers, turbines, engines, or other pressure vessels to cover the cost of boiler replacement and other machinery in the event of an accident.
- **Sinkhole or Earthquake Insurance** is required in areas where there is a risk of damage from this form of natural disaster.
- **Business Income Insurance** is required to cover the loss of income to a property resulting from an event that makes one or more units temporarily uninhabitable.

9.4 FIDELITY INSURANCE

Fidelity insurance protects the property against loss due to employee dishonesty. The policy must provide coverage on all persons with control over or access to project income or other assets. Fidelity coverage may also be known as Blanket Crime Coverage or Fidelity Bonding. Property managers must provide the lender with evidence of fidelity insurance.

9.5 MORTGAGEE’S ERRORS AND OMISSIONS (E&O) INSURANCE

E&O coverage protects the borrower against loss resulting from negligence, errors, or omissions committed by those persons covered under the borrower’s fidelity

insurance policy. Obtaining E&O insurance does not diminish or limit the borrower's documentary obligations and responsibilities.

9.6 LIABILITY INSURANCE

This coverage insures against any personal injury that might occur in or on the property's common areas, common elements, commercial space, and public areas.

9.7 WORKER'S COMPENSATION

This insurance coverage, also known as employer's liability coverage, provides for replacement of lost wages to workers that suffer job injuries. This coverage is not required by the Agency but may be required by State or local law.

9.8 EVIDENCE OF INSURANCE, TERMS, AND COVERAGE

The lender must obtain the original policy or the declaration page and evidence that the first full year's premium has been paid for all required insurance coverage. Either originals or certified copies of current insurance policies and receipts for subsequent annual premiums must be kept on file by the lender. The term of the insurance policy may not be less than one year. All policies must be on an occurrence basis. The lender must determine an acceptable level of coverage based on the needs of the property.

SECTION 3: AUTHORIZED INSURANCE PROVIDERS

9.9 OVERVIEW

Borrowers are responsible for selecting an insurance provider that is reputable and financially sound. The lender must review all relevant available information about insurers including financial statements, insurance rating reports from Best's Insurance Reports or another suitable rating firm, and information from State insurance authorities.

The borrower is required to disclose any identity of interest relationships with the insurer company or must certify to the lender that none exists.

9.10 ACCEPTABLE RATINGS FOR INSURANCE PROVIDERS

A hazard or property insurance provider needs to meet one of the acceptable rating categories established by one of the rating agencies approved by Fannie Mae, Freddie Mac, or Ginnie Mae.