



# CARH Meeting

# Insurance claims issues related to bid requirements

**Agency response:** When the insurance company selects a contractor to perform the mitigation or repairs, the Agency will no longer require the minimum bids.

An **Unnumbered Letter (UL)** is in the clearance process to formally advise Agency staff of the bid requirement change for insurance claim proceeds

- We expect the UL to be signed by Rural Housing Service Administrator Joaquin Altoro by the end of this month (June)

In instances where **the insurance company selects a contractor** to perform the insurance proceed funded mitigation or repairs, the Agency agrees the 2-bid reserve account requirement is not applicable (applies also to the IOI 3-bid requirement).

# Proposal for MFH Insurance Regulation Changes

**Current RD Regulations:** 7 CFR 3560.105(f) outlines the current deductible limits for property insurance and it also indicates if a borrower chooses to exceed the maximum deductible allowed by the Agency, the borrower must fund a GAP account (additional amount to the reserve account) equal to the difference between the maximum allowed by the Agency and the requested new deductible.

**Proposed Rule:** The proposed rule, which is now expected to publish in the Federal Register in October 2023, includes, but is not limited to:

- 1) Increased deductible limits.
- 2) Updated insurance coverage requirements to the industry standard of a percent of replacement value.

# Proposal for MFH Insurance Regulation Changes

## **What types of changes are being considered?**

- Define coverage amounts based on replacement cost value
- Remove deductible limit based on ½% of coverage amount, up to a \$10,000 limit
  - Replace deductible limits to be based on amount of coverage, for example
    - \$10,000 deductible limit for up to \$1,000,000 of coverage
    - \$25,000 deductible limit for coverage greater than \$1,000,000 and up to \$2,000,000
    - \$50,000 deductible limit for coverage greater than \$2,000,000
- Simplify Fidelity coverage with a not to exceed amount based on 3 months of revenues.
- Consider Worker's Compensation and Business Income Insurance (business interruption insurance) coverages.

# Expected Results

- Align insurance coverage requirements and deductible limits with affordable housing industry standards
- Provide additional flexibility for owner's in establishing insurance that may be more affordable
- Update coverages and deductibles to today's economic dollar value
- Increase efficiency with determining Agency insurance requirements
- Reduce risk of losing affordable housing units in our rural communities/  
Preservation of affordable housing units

# Current Insurance Cost Challenges

The Agency is aware of the challenges related to Insurance costs.

- Increasing insurance costs
- Difficulty finding coverage
- Alternative coverage options

\*Rural Development – Budget Based Rent approvals\*



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