



# Council for Affordable and Rural Housing

*Serving the Affordable Housing Needs of Rural America*

December 20, 2022

VIA E-MAIL: ([nancieann.bodell@usda.gov](mailto:nancieann.bodell@usda.gov))

Ms. Nancie-Ann Bodell  
Deputy Administrator  
Multifamily Housing, Rural Development  
United States Department of Agriculture  
1400 Independence Avenue, SW  
Room 5014, STOP 0701  
Washington, DC 20250-0701

Re: Waiver of Insurance Deductible Limits and Issues Related to Claims Processing

Dear Nancie-Ann:

We wanted to follow up on the insurance deductible topic as well as raise certain issues we are seeing with respect to claims processing. As you are aware, the country is facing historically high inflation rates which have caused the Federal Reserve to approve its fourth-straight rate hike of three-quarters of a percentage point as part of its continuous effort to combat inflation. This cost and interest rate increase dynamic has also led most insurers to raise rates. This has either directly led to insurers adding in cost containment measures such as raising deductible limits or offering higher deductibles to in part slow rate increases.

The real estate industry, and affordable housing developments, have been hit hard by the inflation and interest rate costs as well as by the insurance cost increases. In many respects, property managers and owners are a captive audience to insurance companies—they must have insurance coverage and are constrained by their budgets and ability to recover costs through rent increases. In an effort to address these high costs and mitigate rent prices, owners have begun accepting higher deductibles on their insurance policies to obtain better rates. However, RD rules constrain the ability to accept higher deductibles.

Under 7 CFR § 3560.105 and the Agency's MFH Asset Management Handbook, owners are capped at certain deductible amounts depending on the type of insurance coverage. We have enclosed a list of these deductible limits and their respective regulations as Schedule A. In an effort to mitigate high costs and rent prices, we request that the Agency waive these insurance deductible limits until the Federal Rate drops below 2.5%, subject to the owner maintaining documentation that it inquired of at least three insurance companies to compare rates and deductibles. On November 2, 2022, the new benchmark lending rate was raised from 3.75% to 4%, which is the highest the federal funds rate has been since January 2008.

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We have also received feedback from our members regarding insurance claims issues facing management companies following catastrophic property damage resulting from fire, wind, flood and other disasters. Insurance carriers require a detailed and time consuming process as housing providers work to place housing back in service. The insurance adjuster process encompasses detailed and technical field notes. Insurance adjustment is its own technical field with its own training. The insurance companies have specific requirements for hiring vendors as a condition to payment of funds. CARH members after a casualty are experiencing that RD's bid requirements usually duplicate or add another layer of compliance. Based on member feedback, we understand that there is a growing number of industry contractors who are prepared to work with insurance adjusters from the outset of a claim and have expert estimators to verify all damages while also handling the necessary repairs in a timely manner. Standard industry quotes have shown contractors will not charge more than what the insurance company will pay and therefore the deductible remains the only major cost for owners. This may well moot certain RD procedures. Therefore, we request that RD consider waiving bid requirements where the owner demonstrates that there is a robust insurance process and an independent contractor dealing with insurance funds.

Thank you for considering our concerns on these insurance related topics. We understand the Agency has had a very busy year, and we greatly appreciate the work of you and your staff.

Sincerely,

A handwritten signature in blue ink that reads "Colleen M. Fisher".

Colleen M. Fisher  
Executive Director

cc: Jennifer Larson, Director, Asset Management Division  
Richard M. Price, Esq., Nixon Peabody LLP

**Schedule A**

Insurance Coverage	Deductible Limit	Regulation	MFH AM Handbook
Hazard/Property Insurance	\$1,000 on any housing project with an insurable value under \$200,000 or One-half of one percent (0.0050) of the insurable value, up to \$10,000 on housing projects with insurance values over \$200,000.	§ 3560.105 (E)(9)(i)	3.10 (A)(3)
Flood Insurance	The Agency allows a maximum deductible of \$5,000 per building.	§ 3560.105 (E)(9)(ii)	3.10 (B)(3)
Earthquake Insurance	The deductible should be no more than 10 percent of the coverage amount.	§ 3560.105 (E)(9)(iv)	3.10 (C)(3)
Windstorm Insurance	When windstorm coverage is excluded from the “All Risk” policy, the deductible must not exceed five percent of the total insured value.	§ 3560.105 (E)(9)(iii)	3.10 (D)(3)
Sinkhole Insurance or Mine Subsidence Insurance	The deductible for sinkhole insurance or mine subsidence insurance should be similar to what would be required for earthquake insurance.	§ 3560.105 (E)(9)(v)	3.10 (G)(3)
Commercial Automobile Liability Insurance	The Agency allows a deductible not to exceed \$5,000 per occurrence.	N/A	3.13(c)
Fidelity coverage	Under \$50,000: \$1,000 \$100,000: 2,500 \$250,000: 5,000 \$500,000: 10,000 \$1,000,000: 15,000	§ 3560.105 (H)(ii)	3.11(c)