



February 23, 2023

Rural Development

Nancie-Ann Bodell
Deputy Administrator
Multifamily Housing

Colleen M. Fisher
Executive Director
Council for Affordable and Rural Housing
Via email: Cfisher@carh.org

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Dear Ms. Fisher,

Thank you for your letter regarding insurance deductibles and issues related to claims processing. We understand that there is a need to improve not only the Agency's mission risk related to existing insurance coverage policies, but also to modernize process requirements to reduce owner administrative burden.

Accordingly, the Agency is currently drafting a proposed rule that will implement needed changes to existing insurance requirements for Section 515/514/516 properties. The proposed rule will align Agency requirements with housing industry standards. Items under consideration to include in the rule include (1) increased deductible limits based on a "not to exceed" amount instead of the current formula calculation; and (2) updated insurance coverage requirements to the industry standard of a percent of replacement value. We expect the proposed rule will be published in the Federal Register for comments in June 2023 and will look forward to receiving your comments as part of that rulemaking process. In the meantime, we are able to accommodate the concerns you raised through interpretation of existing handbook guidance as follows.

1. The Agency appreciates your concerns regarding insurance coverage deductible limits in today's market. 7 CFR 3560.105(f)(9)(i) outlines the current deductible limits for hazard/property insurance. In addition to this regulation reference, it is stated in 7 CFR 3560.105(f)(10) "*Deductible amounts (excluding flood, windstorm, earthquake and sinkhole insurance, or mine subsidence insurance) must be accounted for in the replacement reserve account, unless the deductible does not exceed the maximum deductible allowable as indicated in paragraph (f)(9)(i) of this section. Borrowers who wish to increase the deductible amount must deposit an additional amount to the reserve account equal to the difference between the Agency's maximum deductible and the requested new deductible. The Borrower will be required to maintain this additional amount so long as the higher deductible is in force.*" Translation/Interpretation: owners may increase deductible amounts above the maximum amount required by the regulation, so long as the deductible amount above the maximum is deposited and maintained in the project reserve account. There is no limitation on how high a deductible may be so long as the reserve is capitalized accordingly.

2. We also appreciate your concerns regarding the administratively burdensome and credit risk redundant bid requirement to contract for insurance funded project repairs. The Agency understands that many insurance companies have specific requirements for hiring contractors. In instances where the insurance company approves a contractor to perform insurance proceed funded repairs the Agency agrees that the bid reserve account requirement is not applicable. This is based on the industry standard that the selected contractor will not charge more than what the insurance company will pay and therefore the deductible is the only expense the property will incur.

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In cases where there is substantial or major rehabilitation, the selected contractor must adhere to Section 504 of the Rehabilitation Act of 1973.

We will be training staff in these new procedures and will include Multifamily stakeholders in that training session to ensure consistent implementation nationwide. Thank you again for raising these important concerns and for your partnership in the Rural Housing Service Multifamily Housing mission delivery.

Sincerely,

Nancie-Ann Bodell
Multifamily Housing Deputy Administrator

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