

Vermont Housing Finance Agency

INSURANCE HANDBOOK For MULTI-FAMILY PROPERTIES



January 2006

INSURANCE HANDBOOK

Insurance Handbook for VHFA-financed rental housing contains the following:

- 1) Insurance coverages and limits that are required by VHFA;
- 2) Insurance coverages that are recommended by VHFA; and
- 3) Comparison Bid Worksheet and Insurance Bid Form.

The Comparison Bid Worksheet and Insurance Bid Form are for you to use when comparing insurance policies to find the most cost-efficient insurance coverage.

Our goal is to assist you in finding the appropriate insurance coverage, and to define VHFA insurance requirements for rental housing. This handbook is intended to supplement the information your insurance agent can give you, and to help you understand the required coverages and prepare for meetings with your insurance agent. We hope this handbook will also assist your insurance agent in understanding the VHFA requirements when he or she is determining your coverage needs.

VHFA INSURANCE REQUIREMENTS:

For each required insurance coverage, the actual policies must be provided to VHFA within 30 days of loan closing.

Properties with VHFA Permanent Loans:

- Property Insurance with Ordinance or Law Endorsement
- Business Income with Extra Expense
- Commercial General Liability
- Boiler and Machinery

Existing Properties with VHFA Construction or Rehabilitation Loans:

- Commercial General Liability
- Builder’s Risk or Floater Installation on Property Insurance policy

New Properties with VHFA Construction Loans:

- Commercial General Liability
- Builder’s Risk

I. Property Insurance

Coverage and Limits Required:

- A. Special Forms Coverage;
- B. Replacement Cost Basis:
The calculated construction cost required to rebuild a building exactly like the building covered under an insurance policy. In case of a loss, this type of policy guarantees reimbursement up to the limits of the policy or the replacement cost of the building, whichever comes first;
- C. Agreed Amount Endorsement:
Although the limits selected still have to be calculated on the percentage of the total exposure, this endorsement suspends the penalty in the event of a loss where the written limits do not meet the required limits. If it is not available, request from the agent the reason why and the amount needed to correct the written limits and allow for this required endorsement;
- D. 100% of property values should be insured.
- E. Ordinance or Law – Coverage A, B and C

Ordinance or Law has three coverage sections:

1. Coverage “A” is the building limit on the Declaration page. It covers cost of loss in value to the damaged portion after a loss when required by ordinance or law. **There should be no additional cost to this coverage.
2. Coverage “B” is the limit stated to demolish and remove the undamaged portion when required by ordinance or law.

3. Coverage “C” is the limit stated to cover the increased cost to repair or reconstruct both damaged and undamaged portions to the minimum required by ordinance or law.

** Coverages “B” and “C” use a stipulated amount to determine the limit of coverage.

Comments:

- If more than one building is being insured, blanket coverage is desirable in order to assure the maximum protection relating to one location or property type. At the time of loss, the entire limit can be used to rebuild the damaged property.
- The building coverage should also cover:
 - all additions, extensions, improvements and betterments thereto;
 - all personal property of the insured used for maintenance or service of the described building(s), including fire extinguishers, refrigerators, stoves, dishwashers and laundry equipment.
- The policy should allow the full replacement cost to be used to build at another site if the insured building(s) is/are destroyed. The limit must include the estimated cost of demolition and removal of debris following a loss to the building.
- VHFA must be identified as the mortgagee on the policy, and receive a copy of the policy and annual copies of the renewal certificate indicating the amount of coverage and the total premium. In addition, VHFA should be notified of any changes to the policy and coverage.

II. Business Income with Extra Expense

This coverage reimburses the owner of an insured building for loss of earnings during the time required to rebuild or repair property damaged or destroyed by an insured peril. Coverage includes all income from the site, not just loss of rents. Request coverage on a “Loss Sustained” basis as opposed to a stated limit of coverage.

III. Commercial General Liability

Provides bodily injury and property damage liability protection for premises, operations and other business exposures. All agents should be quoting the preferred commercial form of coverage.

Coverage and Limits Required (minimum):

- | | |
|--|-----------------------------|
| A. Bodily Injury and Property Damage | \$1,000,000 Each Occurrence |
| | \$2,000,000 Aggregate |
| B. Premises Medical Payments: | |
| Helps pay medical expenses for any person, other than an employee, injured on your property or because of your operation, regardless of fault. | \$ 5,000 per person |
| | \$ 25,000 per accident |

The following Extended Liability Endorsements are also required:

- 1) Aggregate limit per location (if more than one location is being insured)
- 2) VHFA as Additional Insured; Employees as Additional Insured
Provides comparable bodily injury and physical damage liability protection

IV. Boiler and Machinery

The boiler policy provides insurance on an object (heating boiler, elevator mechanics, air conditioning systems) for use at the specified location. Damage to the object itself and resulting damage to the building is insured including Business Interruption (Loss of Rents). Loss of Rents is the reimbursement to the owner of an insured building for rental payments lost due to damage to the building by an insured peril.

This insurance should include:

- A. Locations covered;
- B. Limits of Liability: Comprehensive form; per accident and/or use and occupancy;
- C. Expediting expenses coverage of \$25,000;
- D. Description of Objects:
 - 1) Boilers and fired pressure vessels;
 - 2) Unfired pressure vessels;
 - 3) Refrigeration and air conditioning equipment;
 - 4) Electrical equipment;
 - 5) Auxiliary piping.

Comments:

- Expediting expenses are the reasonable extra costs of temporary repair and/or expediting of the repair of the damaged property, including overtime and the extra cost of transportation.
- Loss adjustment may be set up on a repair or replacement basis in lieu of customary actual cash value.
 - The amount to be expended by the insurance will be the smaller of repairing the equipment or replacing it with like quality. This coverage removes any depreciation on the insured item.
- A Joint Loss Agreement is required if the property insurer is different than the boiler/machinery insurer.
 - Joint Loss Agreement is an agreement between the standard property insurer and the boiler insurer that basically stipulates that the insured will be compensated at the time of loss and the

insurers will settle their respective allocations for fire/explosion between themselves. This agreement is not needed when the same insurer provides both coverages.

V. Builder's Risk/Installation Floater on Property Insurance

Coverage and Limits Required for Builder's Risk

A. Named Insured: Owner, General Contractor and VHFA

B. VHFA as Loss Payee and Mortgagee

C. Coverage:

- Total cost of construction. In addition, it needs to reflect the cost of demolition and debris removal, including fees of the architect and any other "soft" costs that would be duplicated following a substantial loss prior to completion.
- You must have permission of the Builder's Risk Insurer to occupy prior to completion.

D. Policies:

- Inland Marine Form
- Completed Value Basis

E. Endorsements/Extensions:

- You will need to have separate sub-limits for materials and supplies located off premises and in transit.
- Waiver of Subrogation

Coverage and Limits Required for Installation Floater on Property Insurance (may be used for rehabilitation of existing properties)

A. VHFA as Loss Payee and Mortgagee

B. Coverage:

- Total cost of construction. In addition, it needs to reflect the cost of demolition and debris removal, including fees of the architect and any other "soft" costs that would be duplicated following a substantial loss prior to completion.
- You must have permission of the Builder's Risk Insurer to occupy prior to completion.

Recommendation:

- As owner, you should have the contractor agree to a Hold Harmless Clause in your favor.

VHFA INSURANCE RECOMMENDATIONS:

The following insurance coverages are recommended for rental housing property owners. Some can be added as endorsement(s) to other VHFA-required coverages.

Workers' Compensation
Business Auto Coverage
Commercial Umbrella Coverage
Crime Coverage
Advertising Liability
Personal Injury
Off Premises Power Interruption
Extended Liability - Employee Suits
Backup of Sewers and Drains
Flood (if applicable)
Earthquake (if applicable)

I. Workers' Compensation

Insures employers against claims for injuries and sickness suffered by employees when such arise out of and in the course of employment and are covered under worker's compensation laws.

Comments:

- VHFA highly recommends the purchase of a minimum premium workers' compensation package for each location. Vermont regulations require that all employees be provided workers' compensation benefits, and the possibility exists that you could be responsible for these benefits.

II. Business Auto Coverage

This coverage pertains to vehicles used exclusively for business, either hired auto or non-owned auto. Standard liability coverage limits are \$1,000,000. This coverage may be provided as an additional limit within the Special Multi-Peril (SMP) or as part of an auto policy. Automobiles that are exclusively for personal use are not normally covered in this auto coverage; however, you should discuss this carefully with your agent. Consider adding physical damage for hired autos with a minimum limit of \$25,000.

Hired Auto:

Provides coverage for automobiles that have been provided to you on a temporary basis for exclusive use or control.

Non-Owned Auto:

Provides coverage for suits that arise from the use of automobiles which are neither an owned vehicle nor a hired auto (i.e., employee vehicle).

III. Commercial Umbrella (Excess Liability)

This coverage, as a single policy contract, should provide excess limits over primary policies consisting of General Liability, Auto Liability, and Employer's Liability as well as catastrophic protection. Coverage is available at higher limits. Discuss whether higher limits are applicable to your particular situation with your agent.

The minimum required limits of coverage are:

Each occurrence	\$1,000,000
Aggregate	1,000,000
Retained limit	10,000

IV. Crime Coverage: Money & Securities Employee Dishonesty on Blanket Basis

Coverage should match the amount of exposure from the handling of your funds.

V. Advertising Liability

Liability exposures resulting from advertising, publicity articles, broadcasts, and telecasts concerning the named insurer's activities.

VI. Personal Injury

Liability exposures arising from libel, slander, humiliation, false arrest, malicious prosecution, defamation of character and similar sources of complaints. Most policies do not provide coverage for the above suits if they arise from employment activities.

INSURANCE BID FORM

INSURANCE COMPANY _____

Address/Phone # _____

Please submit this form as a quote for insurance coverage. Our current insurance policy with _____ expires on _____, and we will need your response by _____.

Named Insured: _____ Additional Insured: _____

Mortgagee: _____ Three-year policy available? _____

Vermont Housing Finance Agency Subject to Inspection? _____

P.O. Box 408

Burlington, VT 05402-0408

BOLD LETTERING INDICATES VHFA REQUIREMENTS

	YES/NO	LIMIT/INCL	COST/yr
PROPERTY INSURANCE	_____		
Blanket Limit	_____	\$ _____	
Specific Limit	_____	\$ _____	
Special Form	_____		
Agreed Amount	_____		
Coinsurance	_____		
Replacement Cost	_____		
Service Equipment	_____	\$ _____	
\$ 500 Deductible	_____		\$ _____
\$1,000 Deductible	_____		\$ _____
\$5,000 Deductible	_____		\$ _____
 ADDITIONAL PROPERTY COVERAGES			
Ordinance or Law	_____	\$ _____	\$ _____
Demolition Cost	_____	\$ _____	\$ _____
Inc Cost of Construction	_____	\$ _____	\$ _____
Backup of Sewers and Drains	_____	\$ _____	\$ _____
Flood coverage	_____	\$ _____	\$ _____
deductible	_____	\$ _____	
Earthquake coverage	_____	\$ _____	\$ _____
deductible	_____	\$ _____	
 BUSINESS INCOME			
Limit	_____	\$ _____	
Limitation Factor	_____	\$ _____	
Premium			\$ _____
 COMMERCIAL GENERAL LIABILITY			\$ _____
Each occurrence (\$1,000,000)	_____	\$ _____	
Aggregate (\$2,000,000)	_____	\$ _____	
Personal/Advertising	_____	\$ _____	
Products/Comp Ops aggregate	_____	\$ _____	
Fire Damage Liability	_____	\$ _____	
Medical Expense	_____	\$ _____	
Aggregate Limit per Loc.	_____		
Employees as Add'l Insured	_____		
VHFA as Add'l Insured	_____		

INSURANCE BID FORM

BOLD LETTERING INDICATES VHFA REQUIREMENTS

	YES/NO	LIMIT/INCL		COST/yr
Business Auto				
Limit of \$1,000,000	_____			
Non-owned Auto	_____	\$ _____		
Hired Auto	_____	\$ _____		
Total Premium				\$ _____
General Liability Umbrella				
\$1,000,000 limit				\$ _____
\$2,000,000 limit				\$ _____
\$3,000,000 limit				\$ _____
\$_____ limit				\$ _____
Retained limit		\$ _____		
Boiler & Machinery				
Limit	_____	\$ _____		\$ _____
Extra Expenses	_____	\$ _____		
Replacement Cost	_____			
Joint Loss Agreement	_____			
Deductible	_____	\$ _____		
Workers' Compensation	_____			\$ _____
Bodily Injury each accident		\$ _____		
Bodily Injury policy limit		\$ _____		
Bodily Injury each employee		\$ _____		
Crime Insurance	_____			
Employee Dishonesty		\$ _____		
Money & Securities				
Inside Premises		\$ _____		\$ _____
Outside Premises		\$ _____		\$ _____

PAYMENT PLANS AVAILABLE:

COMMENTS:

RECOMMENDATIONS:

AGENT'S PLACEMENT AGREEMENT

1. I am a licensed insurance agent for _____ which is an ADMITTED INSURER backed by the Vermont Guaranty Fund and which possesses a Best's Policyholders Rating of _____ (minimum requirement of B+ or better) and a financial rating of _____ (minimum requirement of class IX or better).
2. I have placed the property and casualty coverage on either a _____ Package (SMP) or _____ Business owners form. (Check appropriate form)
3. I have reviewed VHFA's required coverages for the property(ies) being quoted and my proposal meets their minimum requirements. I understand that I am responsible for notifying VHFA of any reductions or cancellations of this coverage.
4. I agree to name VHFA as mortgagee and provide their office with a duplicate insurance policy.
5. **TEN DAYS PRIOR TO INITIAL INCEPTION DATE AND SUBSEQUENT RENEWALS,** I will mail a formal certificate of insurance to VHFA.
6. I agree to provide the insured with a written indication, 45 days in advance, of the renewal price and coverage changes that might be forthcoming.
7. I verify that the premiums and responses in this quote have been reviewed and verified. This quote is offered in good faith and is valid for _____ days.

Signature

Name

Agency

Date

SUMMARY OF COVERAGES

COMPANY	_____	_____	_____
Property Insurance	\$ _____	\$ _____	\$ _____
Business Income	\$ _____	\$ _____	\$ _____
General Liability	\$ _____	\$ _____	\$ _____
Boiler	\$ _____	\$ _____	\$ _____
Business Auto	\$ _____	\$ _____	\$ _____
Umbrella \$1,000,000	\$ _____	\$ _____	\$ _____
Workers' Compensation	\$ _____	\$ _____	\$ _____
Flood	\$ _____	\$ _____	\$ _____
Earthquake	\$ _____	\$ _____	\$ _____
Backup of Sewers/Drains	\$ _____	\$ _____	\$ _____
Ordinance or Law			
B Coverage	\$ _____	\$ _____	\$ _____
C Coverage	\$ _____	\$ _____	\$ _____
Crime	\$ _____	\$ _____	\$ _____
Personal/Advertising	\$ _____	\$ _____	\$ _____
TOTAL:	\$ _____	\$ _____	\$ _____

NOTES:

COMPARISON BID WORKSHEET FOR PACKAGE POLICIES

AGENCIES	_____	_____	_____	AGENCIES	_____	_____	_____
Company	_____	_____	_____	Total	_____	_____	_____
<hr/>				<hr/>			
Property				Total	_____	_____	_____
Limit	_____	_____	_____	\$500 ded	_____	_____	_____
Special	Yes__No__	Yes__No__	Yes__No__	\$1000 “	_____	_____	_____
Agreed Amt	Yes__No__	Yes__No__	Yes__No__	\$5000 “	_____	_____	_____
Coinsurance	_____%	_____%	_____%				
Repl.Cost	Yes__No__	Yes__No__	Yes__No__				
Serv. Equip	\$_____	\$_____	\$_____				
Additional							
Ordinance	\$_____	\$_____	\$_____		\$_____	\$_____	\$_____
Demolition	\$_____	\$_____	\$_____		\$_____	\$_____	\$_____
Inc Cost	\$_____	\$_____	\$_____		\$_____	\$_____	\$_____
Backup S/D	\$_____	\$_____	\$_____		\$_____	\$_____	\$_____
Flood	\$_____	\$_____	\$_____		\$_____	\$_____	\$_____
Earthquake	\$_____	\$_____	\$_____		\$_____	\$_____	\$_____
Bus Income				Total	\$_____	\$_____	\$_____
Limit	\$_____	\$_____	\$_____				
Limitation	_____%	_____%	_____%				
Liability				Total	\$_____	\$_____	\$_____
Each occur	\$_____	\$_____	\$_____				
Aggregate	\$_____	\$_____	\$_____				
PI/Advert	\$_____	\$_____	\$_____				
Prod/Com Op	\$_____	\$_____	\$_____				
Fire damage	\$_____	\$_____	\$_____				
Med Expense	\$_____	\$_____	\$_____				
Agg per Loc	Yes__No__	Yes__No__	Yes__No__				
Emp as AI	Yes__No__	Yes__No__	Yes__No__				

COMPARISON BID WORKSHEET FOR PACKAGE POLICIES

AGENCIES	_____	_____	_____				
Bus Auto				AGENCIES			
Hired Auto	\$ _____	\$ _____	\$ _____	TOTAL	\$ _____	\$ _____	\$ _____
Non-owned	\$ _____	\$ _____	\$ _____				
Umbrella							
\$1,000,000					\$ _____	\$ _____	\$ _____
\$2,000,000					\$ _____	\$ _____	\$ _____
\$3,000,000					\$ _____	\$ _____	\$ _____
\$ _____					\$ _____	\$ _____	\$ _____
Retention	\$ _____	\$ _____	\$ _____				
Boilers				Total	\$ _____	\$ _____	\$ _____
Limit	\$ _____	\$ _____	\$ _____				
Extra Exp	\$ _____	\$ _____	\$ _____				
Repl Cost	Yes__ No__	Yes__ No__	Yes__ No__				
Joint L.A	Yes__ No__	Yes__ No__	Yes__ No__				
Deductible	\$ _____	\$ _____	\$ _____				
Work Comp				Total	\$ _____	\$ _____	\$ _____
Ea accident	\$ _____	\$ _____	\$ _____				
Pol limit	\$ _____	\$ _____	\$ _____				
Ea employee	\$ _____	\$ _____	\$ _____				
Crime							
Emp Dis.	\$ _____	\$ _____	\$ _____		\$ _____	\$ _____	\$ _____
Money & Sec					\$ _____	\$ _____	\$ _____
Inside	\$ _____	\$ _____	\$ _____				
Outside	\$ _____	\$ _____	\$ _____				

COMPARISON BID WORKSHEET FOR BUSINESS OWNERS POLICY

AGENCIES _____

Umbrella
 \$1,000,000
 \$2,000,000
 \$3,000,000
 \$ _____
 Retention \$ _____ \$ _____ \$ _____

Boilers
 Limit \$ _____ \$ _____ \$ _____
 Extra Exp
 Repl Cost \$ _____ \$ _____ \$ _____
 Joint L.A.
 Deductible \$ _____ \$ _____ \$ _____

Work Comp
 Ea accident \$ _____ \$ _____ \$ _____
 Pol limit \$ _____ \$ _____ \$ _____
 Ea employee \$ _____ \$ _____ \$ _____

Crime
 Emp Dis. \$ _____ \$ _____ \$ _____
 Money &
 Sec
 Inside \$ _____ \$ _____ \$ _____
 Outside \$ _____ \$ _____ \$ _____

AGENCIES _____

\$ _____ \$ _____ \$ _____
 \$ _____ \$ _____ \$ _____
 \$ _____ \$ _____ \$ _____
 \$ _____ \$ _____ \$ _____

Total \$ _____ \$ _____ \$ _____

Total \$ _____ \$ _____ \$ _____

\$ _____ \$ _____ \$ _____
 \$ _____ \$ _____ \$ _____