

These insurance guidelines govern initial coverage at close of escrow and annual renewals (Certificates) of insurance coverage on rental properties purchased or improved using Department loans or direct grants. The Department reserves the right to revise these guidelines and vary these insurance requirements based on, among other items, the availability of coverage, current insurance industry standards and concerns specific to the insured property.

Property owners are responsible for carrying the minimum required insurance coverage according to the Department's loan documents, including the Regulatory Agreement. Insurance coverage meeting the following guidelines will be deemed by the Department to be in compliance with the Department's loan documents.

Submit initial coverage and subsequent annual renewal certificates of insurance (or other evidence) that acknowledge the Department's security interest and have appropriate coverage in force for the required property and liability exposures below:

1. GENERAL REQUIREMENTS:

- A. Insurance Company Qualification:** Property and liability insurance policies, and a separate flood insurance policy (if applicable), must be with a company that has an A. M. Best Key Rating Guide financial strength rating of A- or better, and a financial size of class VII or better.
 - i. The carrier's A. M. Best Rating may be verified at: <http://www.ambest.com/>
 - ii. If a Joint Powers Authority (JPA), accreditation may be verified at: <http://www.caipa.org/Topics/Accreditation/default.aspx>
- B.** All *property* coverage must name the Department as **Lenders Loss Payee**.
- C.** All *liability* coverage must name the Department as an **Additional Insured**.

2. PROPERTY COVERAGE (formerly "Hazard"):

- A. Buildings:** Property coverage amount must be sufficient to rebuild the Project with no coinsurance penalty (100 percent of reconstruction cost).
 - i. Special causes of loss (formerly "all-risk") including coverage Buy-back of Ordinance or Law exclusions (loss to undamaged portion of the building, demolition cost, increased cost of construction, and increased period of restoration).
 - ii. Flood Policy, if property is in FEMA high hazard flood zone, verify flood zone of property address at: <http://www.fema.gov> and provide evidence of Flood Insurance.

- B. **Contents:** Include coverage to replace owner-provided fixtures, window/floor coverings, appliances, and other non-building property.
- C. **Loss of Rents:** Include actual loss sustained coverage to replace the reduction in rent revenue as the result of a property loss.
- D. **Waiver of Subrogation:** Borrower/Sponsor must agree to waive subrogation after a property loss.
- E. **Deductibles:** \$10,000 maximum deductible per occurrence; higher deductibles require prior approval by the Department.
- F. **Boiler & Machinery:** If boiler exposure exists, it must be specifically covered.

3. **COMPREHENSIVE GENERAL LIABILITY:**

- A. **Minimum Amount:**
 - i. \$1,000,000 per occurrence, \$2,000,000 aggregate.
 - ii. If elevator exposure: \$2,000,000 per occurrence, \$4,000,000 aggregate.
- B. **Medical Payments:** \$5,000 per person recommended (not required).

4. **SPECIAL COVERAGE:** If restaurant/cooking or child care exposure exists, it must be specifically insured for liability separate from the premises liability.

5. **CERTIFICATES AND EVIDENCES:** All Certificates and Evidences must include the name of the Project, the name of the Borrower as named insured, the Department **Loan Number** and the address of the Project. The Department, its officers, agents, employees, directors, and appointees shall be additionally insured as their interests may appear.

Department must be notified 30 days prior to any change, non-renewal or cancellation of the insurance policy.

6. **MAIL EVIDENCE OF INSURANCE TO THE FOLLOWING:**

State of California Department of HCD
Asset Management and Compliance
1800 Third Street, Suite 460
Sacramento, CA 95811

Re: *[Project Name]* and *[Loan Number]*