U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-8000

ASSISTANT SECRETARY FOR HOUSING-
FEDERAL HOUSING COMMISSIONER

DATE: April 17, 2024

MORTGAGEE LETTER: 2024-05

TO: All FHA Approved Multifamily Mortgagees

SUBJECT: Wind or Named Storm Insurance Coverage - Maximum Insurance Deductibles

Purpose

The MAP guide requires that the maximum deductible for casualty insurance may not exceed the greater of $50,000 or 1% of the insurable value for any insured building up to a maximum amount of $250,000. It has been increasingly apparent that insurers are less willing to underwrite a casualty insurance policy with this deductible, particularly in states and geographic areas subject to increasingly severe weather patterns. The purpose of this Mortgagee Letter is to address the challenges that borrowers are facing in the insurance market, caused primarily by weather conditions due to climate change. This Mortgagee Letter increases the maximum casualty insurance deductible amount for wind or named storm coverage as set forth below. This Mortgagee Letter applies to new mortgage insurance transactions that have not achieved final endorsement.

Background

Heavy rainfall, high winds and storm surges associated with intense storms have the potential to cause significant damage to property, more so than average seasonal storms that may be historically typical for any given geographical area. Because these stronger storms have the potential to cause significant damage to property, insurance providers generally define them as “named storms” and assess an increased named storm deductible as a condition of providing coverage in the event of a catastrophic loss. Wind or named storm deductibles first came about in 1992 after Hurricane Andrew, and became more common after Hurricane Katrina in 2005, when the insurance industry lost $64B.

Wind or named storm coverage, particularly using the lower deductible amount currently required by HUD, can be difficult to obtain in the insurance market due to a lack of availability in some areas, or when available, may be unreasonably expensive. Additionally, wind or named storm deductibles are often much higher than HUD’s maximum deductible of $250,000, requiring borrowers to purchase deductible “buy down” coverage to meet HUD requirements. This buy down coverage pays the additional deductible over and above the maximum HUD-allowed deductible. If buy down coverage is available, the cost can add tens of thousands of dollars to the cost of the insurance policy and operating cost of HUD insured projects. This additional cost is particularly detrimental for affordable projects with restricted rents that are unable to be increased to cover unexpected operating costs.

Given the realities of climate change and the increasing likelihood of stronger, catastrophic storms, as well as the business reality that insurers will continue to increase premiums (and deductibles) to offset their cost of insuring properties in certain areas, HUD must adjust to the changing market to remain competitive. At the same time, as discussed in more detail below, HUD also recognizes obvious risks in increasing the wind or named storm deductible higher than the maximum amount currently published in the MAP guide.

Given the increasing relevance of this issue and its impact on the efficient functioning of the FHA insurance programs, HUD proposes to **increase the maximum wind or named storm deductible to the greater of $50,000 or 5% of the insurable value per location, up to a maximum amount of $475,000 per occurrence**.

Underwriting Considerations for Wind or Named Storm Deductibles

HUD's primary concern to increasing the wind or named storm deductible amount is the ability and/or willingness of the borrower to contribute equity in the event of damage caused by a wind or named storm. A financially strong, multi-state real estate developer who would suffer significant reputational risk if they were to abandon a wind or named storm damaged property is highly likely to pay the increased deductible and complete the necessary repairs. This contrasts with a small developer or non-profit entity where a large deductible may prove to be unmanageable due to limited financial resources and/or ability to increase rents, resulting in a claim.

Therefore, this policy does not change the general requirement to acquire and maintain general casualty insurance with the current deductible requirements found in the MAP Guide. This policy recognizes market limitations for affordable insurance policies with wind or named storm deductibles by increasing the maximum allowable deductible requirements.

Required MAP Guide Modifications

Section 3.9.2.4.A.3 of the MAP Guide[1]is amended as follows:

3. **Limitations of Borrower's obligation to share cost of damages.** HUD's minimum coverage requirements protect Borrowers by limiting their obligation to share the costs of damages when a casualty occurs and by assuring that the insurance proceeds are sufficient to pay the commensurate portion of the principal amount of any insured mortgage(s) when a damaged building cannot be restored. Typically, insurers require Borrowers to share the cost of damages by one (or both) of two methods: deductibles, and co-insurance requirements. HUD limits Borrowers' exposure as follows:

    a. Casualty insurance deductibles may not exceed the greater of $50,000 or 1% of the insurable value for any particular building up to a maximum amount of $250,000.

[1] See the MAP Guide at https://www.hud.gov/program_offices/administration/hudclips/guidebooks/hsg-GB4430

b. Separate wind or named storm coverage deductibles may not exceed the greater of $50,000 or 5% of the insurable value per location, up to a maximum amount of $475,000 per occurrence.

    i. The Regional Director may waive the wind or named storm deductible, on a case-by-case basis, in excess of 5%, but not to exceed $1,000,000 if it is determined the key principals have the financial strength and level of HUD multifamily experience such that significant repairs from storm damage are achievable despite the higher deductible.
    ii. Any request for a deductible waiver in excess of $1,000,000 must be approved by the Director, Office of Multifamily Production headquarters.

Policy Assessment

HUD will continue to assess whether this change is achieving its policy objectives, whether the loans insured under the policy change are furthering HUD's core mission, and whether the overall risk profile of the FHA portfolio is impacted by this change. HUD reserves the right to further modify this policy in response to the findings of this assessment.

For questions about this Mortgagee Letter, contact Willie Fobbs III, Director, Office of Multifamily Production at Willie.Fobbs@hud.gov.

Paperwork Reduction Act

The information collection requirements in this Mortgagee Letter are already approved as OMB Approval numbers 2502-0514 for the MAP Guide and 2502-0029 for multifamily mortgage insurance application forms, and therefore the Paperwork Reduction Act of 1995 (44 U.S.C. 3501-3520) does not apply. In accordance with the Paperwork Reduction Act, an agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless the collection displays a currently valid OMB control number.

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Julia R. Gordon
Assistant Secretary for Housing—
Federal Housing Commissioner