

May 8, 2013

TO: State Directors
Rural Development

ATTENTION: MFH Program Directors, Coordinators
and Rural Development Managers

FROM: Tammye Treviño (Signed by Tammye Treviño)
Administrator
Housing and Community Facilities Programs

SUBJECT: Force Placed Insurance

The purpose of this Unnumbered Letter (UL) is to provide guidance to field staff in requesting force placed insurance on Multi-Family Housing properties.

Borrowers are required to purchase and maintain property and liability insurance on all buildings included as security for the Agency loan, and any other insurance coverage required by the Agency, in accordance with 7 CFR 3560.105 until the loan is paid.

Should a borrower fail or refuse to pay premiums, or is unable to meet insurance requirements, the borrower will be notified, in writing, in accordance with 7 CFR 3560.354. The notification will describe the deficient finding(s) and will specify a time period by which corrective action must be taken by the borrower. The notification will offer borrowers an opportunity to discuss the reported deficiency and will explain enforcement actions the Agency may take if corrective action is not taken within the time period specified in the monitoring review notification.

Should a borrower fail to obtain, or is unable to meet insurance requirements, the Agency will take action to obtain (force placed) insurance, pay the insurance premium and charge the premium payment amount to the borrower's account. The borrower will be placed in default in accordance with §3560.452(c). Force placed insurance only provides insurance coverage to the Agency and does not provide direct coverage or benefit to the borrower. The amount of the lender-placed coverage will generally be the property's last known insured value.

EXPIRATION DATE:
May 31, 2014

FILING INSTRUCTIONS:
Housing Programs

Special Cases – Custodial (Abandoned) and REO Properties

Loan Servicers are responsible for ensuring that custodial and REO properties are appropriately managed and maintained. The goal of property management is to protect the tenants and the interests of the Government.

Insurance on custodial properties will be maintained per program requirements. Costs associated with managing abandoned property are the responsibility of the borrower and will be charged to the borrower's account until liquidation is completed. When taken into inventory, insurance will not be canceled when the property is acquired. However, the Agency will pay additional premiums to continue coverage when it is in the best interests of the Federal Government.

NOTE: State officials are not to confuse a request of force placed insurance with a request for a protective advance. Additional guidance and procedures for requesting protective advances will be issued under a separate UL.

To insure properties, the Centralized Servicing Center (CSC) administers a contract with Proctor Financial. In ensuring a line of communication with the CSC, Area Office staff responsible for servicing of the portfolio will submit their request for force placed insurance to the State Director, Attention: Housing Program Director or MFH Coordinator. State Officials will then contact the Director of Escrow and Front End Management Branch at (314) 457-5864. The Escrow and Front End Management Branch will then make a request of Proctor Financial, and the borrower's account will be billed within the next 30-day billing cycle.

As important as it is to notify CSC to force placed insurance, it is equally important to ensure that CSC is notified when the insurance is to be cancelled. Once a Borrower provides evidence that insurance has been obtained and/or premiums paid, **OR** a property is liquidated (i.e., foreclosure sale), the State Official must notify the Escrow and Front End Management Branch of CSC to ensure the policy is cancelled and any unused premiums are refunded (as applicable) to the borrower's account.

If you have any questions, please contact Laura L. Horn, Finance Loan Analyst, at (202) 720-5443.