



UNITED STATES
DEPARTMENT OF
AGRICULTURE

RURAL
DEVELOPMENT

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SUITE 102, FEDERAL BUILDING
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SFH SECTION

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Rural Development Texas AN No. 552 (3550)

July 25, 2001

SUBJECT: Builder's Risk and Hazard Insurance
For Single Family Dwellings

TO: All Offices
USDA Rural Development, Texas

PURPOSE/INTENDED OUTCOME: The purpose of this Texas Administrative Notice (AN) is to clarify USDA Rural Development's responsibility to assure that proper insurance coverage is obtained in accordance with HB-1-3550 Chapter 6 and paragraph II B of FmHA Instruction 426.1.

COMPARISON WITH PREVIOUS ANS: This AN replaces TX AN No. 466 dated December 8, 1995 which expired on November 30, 1996.

IMPLEMENTATION RESPONSIBILITIES: In accordance with FmHA Instruction 426.1, section II B, the following guidelines must be followed to assure that proper insurance coverage is obtained during the construction period on contract-built dwellings.

If the contractor provides a builder's risk policy, our borrower and USDA RURAL DEVELOPMENT must be named in the loss payable clause. Upon completion of the dwelling, the builder's risk policy must automatically convert to full coverage. If not, the borrower must provide a full coverage policy that becomes effective simultaneously with the expiration of the builder's risk provisions of the policy.

Property coverage must also be in effect for properties in flood prone areas if insurance is available. Insurance coverage must be for the amount of the unpaid principal balance of the loan, or the maximum limit of coverage available on the property, whichever is less.

EXPIRATION DATE: June 30, 2002

FILING INSTRUCTIONS: HB-1-3550
State Supplements

In cases where existing houses are involved, adequate insurance will be in effect as required in FmHA Instruction 426.1 and Field Office Handbook HB-1-3550 6.13 and HB-1-3550 Attachment 6-A. The policy will be in effect at the time of loan closing. The borrower will be required to furnish, with the policy, proper evidence that the premium has been paid for one full calendar year from the date of closing.

The evidence of a premium payment may be (1) a receipt, (2) the policy or bill for the premium stamped "Premium Paid", (3) the endorsement renewing or *continuing the* policy stamped "Premium Paid", or (4) a letter or statement signed by the agent stating that the premium has been paid. If the premium will be paid at closing, then the Centralized Servicing Center (CSC) will need to be provided with a copy of the insurance policy or binder and a copy of the Settlement Statement which clearly shows that the one year insurance premium payment was collected at closing.

Please contact Leon Carey in the Single Family Housing Section if you have any questions.

/s/ Bryan Daniel
BRYAN DANIEL
State Director