

## § 203.204

## 24 CFR Ch. II (4–1–13 Edition)

Group (see 15 U.S.C. 3901a(4)(A)–(H) (Supp. IV 1986); or

(2) By a State that guarantees the builder's performance and the State's continuing financial backing throughout the Plan's coverage period.

(b) All Plans must have insurance backing unless backed by the full faith and credit of a State.

(c)(1) Plans backed by the full faith and credit of a State must be in compliance with § 203.200 through § 203.202, § 203.204 through § 203.206, and § 203.209 to be acceptable to HUD. HUD will evaluate these Plans to ensure their compliance with these sections.

(2) HUD will not accept Plans backed by a State agency or a State insurance guaranty fund unless HUD is assured that the full faith and credit of the State is pledged to satisfy any and all obligations of the State agency or guaranty fund that may arise in connection with its financial backing of a Plan.

(d) The functions of a Plan issuer and an insurance backer may be performed by a single corporate entity.

### § 203.204 Requirements and limitations of a plan.

In addition to complying with the criteria set out in § 203.202 and § 203.205, for a Plan to be acceptable to HUD, it must meet the following requirements:

(a) A Plan must assure timely resolution of homeowners' complaints or claims covered under § 203.205. Warranties set forth in a Plan must comply with section 2301(a)(1)–(13) of the Magnuson-Mass Warranty-Federal Trade Commission Improvement Act (15 U.S.C. 2301–2312) along with the requirements and criteria set out in this section.

(b) The entire cost to the homeowner for Plan coverage must be prepaid by the builder, or the Plan issuer must give irrevocable coverage, at the time of settlement. In the case of optional coverage beyond the coverage required under § 203.205, the cost for the optional coverage may be paid by either the builder or the homeowner.

(c) Unexpired Plan coverage must be automatically transferred, without additional cost, to subsequent homeowners.

(d) Issued Plan coverage must be noncancellable by a Plan issuer or by its insurance backer(s).

(e) Exclusions from Plan coverage must not defeat coverage objectives stated in § 203.202 and § 203.205 and must permit normal homeowner use of the covered property, including normal maintenance and emergency property protection measures.

(f) Unless prohibited by applicable law, Plans must, at a minimum, stipulate that all homeowner complaints covered by a Plan, including those regarding construction deficiencies and structural defects claims, will be settled in the amount of their actual cost to correct or for the original sales price of the property, whichever is the lesser, subject to a deductible not to exceed a total of \$250 for all claims filed by a homeowner during the first two years of coverage and not to exceed a maximum of \$250 per claim during the third through the tenth year of coverage.

(1) In the case of claims filed by a condominium association, the deductible is limited to \$250.00 per claim for each affected unit in the structure, not to exceed a maximum of \$5,000.00 where the claim relates to the same event that affected several units. Recurrent claims for structural defects occasioned by a common cause shall be subject to the payment of no more than one deductible. In addition, a Plan covering a condominium must provide the condominium association with an additional warranty that allows for claims by homeowners involving the common elements of the building.

(2) A homeowner shall be liable for a deductible only if a builder defaults on warranty performance and the Plan issuer has to make the covered corrections. When the builder performs corrections under the builder's warranty, no deductible that may be included in the Plan is applicable.

(g) In the event of any dispute regarding a homeowner complaint or structural defect claim, Plans must, unless prohibited by applicable law, provide for binding arbitration proceedings arranged through a nationally recognized dispute settlement organization. The sharing of arbitration charges shall be as determined by the

Plan. A Plan must contain pre-arbitration conciliation provisions at no cost to the homeowner, and provision for judicial resolution of disputes, but arbitration, which must be available to a homeowner during the entire term of the coverage contract, must be an assured recourse for a dissatisfied homeowner.

(h) Where a State has a home protection act or other statutes or regulations that require its approval of Plans, a Plan issuer must demonstrate such approval to HUD as an additional prerequisite to HUD acceptance.

(i) A Plan issuer must provide homeowners an executed coverage contract clearly describing—

- (1) The identity of the property covered;
- (2) The time at which coverage begins;
- (3) The maximum amount of Plan liability;
- (4) Noncancellability of the coverage contract by the Plan or its insurance backers;
- (5) No-cost transferability of unexpired coverage to successors in title;
- (6) The property coverage provided;
- (7) Any exclusions from coverage;
- (8) Performance standards for resolving homeowner complaints and claims (if standards for complaint and claim adjustment are promulgated as part of a Plan);
- (9) Dispute settlement procedures;
- (10) The names, addresses, and telephone numbers of the Plan issuer and its insurance backers; and
- (11) When, to whom, under what conditions, and to what address homeowners should submit any construction deficiency complaints or structural defects claims.

(j) Plans will not be required to warrant that a covered property complies with:

- (1) Original dwelling plans and specifications;
- (2) Applicable building codes; or
- (3) Specific terms of a homeowner's contract to purchase a property.

[55 FR 41021, Oct. 5, 1990, as amended at 61 FR 36264, July 9, 1996]

#### § 203.205 Plan coverage.

(a) Plan coverage must take effect at closing or settlement following the ini-

tial sale of the property to the homeowner.

(b) During the first year of coverage, a Plan must provide for a warranty against defects in workmanship and materials resulting from the failure of the covered property to comply with standards of quality as measured by acceptable trade practices, as well as correct the problems with, or restore the reliable function of, appliances and equipment damaged during installation or improperly installed by the builder. The plan must also cover structural defects as defined in § 203.200.

(c) During the first and second year of coverage, a Plan must provide a warranty against defects in the wiring, piping and ductwork in the electrical, plumbing, heating, cooling, ventilating, and mechanical systems.

(d) Basement slabs in designated areas must be covered by a warranty in the Plan against damage from the first through the fourth year.

(e) From the first through the tenth year, structural defect (as defined in § 203.200), except as provided in paragraph (d) of this section, must be covered by a warranty in the Plan.

(f) A Plan must provide insurance coverage for builder default on any warranty obligation.

The coverage described in paragraph (b) through (f) of this section is the minimum level of coverage that HUD will find acceptable in a Plan.

#### § 203.206 Housing performance standards or criteria.

A Plan may contain housing performance standards or criteria for resolution of homeowner claims or complaints that are fair, reasonable, and consistent with the intent of the Plan, including Plan coverage under § 203.205. If a Plan contains such criteria or standards, they must be acceptable to the Secretary.

#### § 203.207 Designated area.

The Secretary may designate any part of the country as a “high risk area” where construction practices allow basement slabs to be placed on expansive or collapsible soil. By virtue of this authority, the Secretary has designated the State of Colorado as a “high risk area.”