



Insurance Policies and Requirements

Hazard Insurance Requirements

Dwelling Coverage Requirement

The lesser of:

- 100% of the insurable value of the improvements, as established by the property insurer; or
- the unpaid principal balance of the mortgage, as long as it at least equals the minimum amount of 80% of the insurable value of the improvements.

If the insurance coverage is substantially less than the mortgage loan amount, evidence of insurer’s estimate of replacement cost should be requested from the insurer.

RD Only:

Should be equal to:

- Replacement cost coverage in an amount equal to the insured value of improvements; or
- the unpaid principal balance

Maximum Deductible

5% of the face amount of the policy

RD Only:

The deductible should not exceed the greater of:

- \$1000
- 1 % of the policy coverage
- The minimum deductible offered by the borrower’s chosen insurance carrier

Policy Term and Renewal Requirements

Purchases:

- Policy period must be in place on day of closing and no more than 30 days before closing
- Initial policy term must be at least 1 year

Refinances:

- Policy must be current and not expiring within 60 days of closing
- Must provide renewal declaration page if expiring within 60 days
- Must collect for following year premium if due within 60 days

Escrow Requirements

Government Loans: Escrow is required.

Conventional loans: LTVs > 80% escrow is required. Except where specified by state law. Escrow Waiver

Pricing Adjustment: .25

Additional optional coverages such as separate umbrella and liability insurance may not be escrowed with the mortgage payment.

Flood Coverage- NFIP/SFIP

Coverage Requirement

Flood coverage is required anytime any part of the residential structure lies within a Special Flood Hazard area as determined by a flood certificate.



The minimum amount of flood insurance required for most first mortgages secured by a 1-4 unit residential property:

- 100% of the replacement cost of the insurable value of the improvements
- the maximum insurance available from the NFIP: \$250,000 per dwelling
- the unpaid principal balance of the mortgage

RD Requirements:

Flood insurance must cover the lesser of the outstanding principal balance of the loan or the maximum amount of coverage allowed under FEMA's NFIP.

Eligible Insurers

Flood policies issued by the National Flood Insurance Program and are acceptable on all programs.

Maximum Deductible

Deductibles for flood insurance policies must meet NFIP requirements for the type of improvements insured, unless state law allows for a higher maximum deductible amount. This requirement applies to both NFIP and private policies.

RD Only:

Unless a higher amount is allowed by state or federal law (which includes FEMA policies), the maximum deductible clause for a flood insurance policy should not exceed the greater of:

- \$1000, or
- 1 % of the face amount policy coverage, or
- The minimum deductible offered by the borrower's chosen insurance carrier.

Escrow Requirements

Flood insurance must be escrowed if the property lies in a SFHA. No escrow waiver is available.

If a property does not lie in a flood zone and optional flood insurance is obtained that insurance may not be escrowed.

Change in Flood Zone

If a property's flood determination has changed, a Letter of Map Amendment (LOMA) or a new Elevation Certificate may be obtained and sent to the flood service provider for certificate amendment. If it is determined the property is no longer in the flood plain, the certificate will be updated, and flood insurance will not be required.

Flood Insurance - Private Insurance Company

Key Provisions

Compliance Aid: *streamlined provision to assist lenders when evaluating policies; lenders can rely on this written assurance from the insurer that a policy satisfies the BW criteria*

The exact verbiage must be used or policy will have to be reviewed in full (can't require insurance companies to put this on the policy and we can decide to review the policy instead of using this statement:

'This policy meets the definition of private flood insurance contained in 42 U.S.C. 4012a(b)(7) and the corresponding regulation.'

Mandatory Acceptance: *Lenders must accept the private flood insurance policy if it meets:*

- *the Biggert-Waters (BW) definition of private flood insurance*
 - *issued by an insurance company that is licensed, approved to do business in subject property state by the insurance regulator of that state/*
 - *Provides flood insurance coverage that is at least as broad as the coverage provided under a*



standard flood insurance policy issued under the NFIP (SFIP) including when considering deductibles, exclusions, and conditions offered by the insurer

- *Definition of ‘as broad as’:*
 - *Defines the term “flood” to include the events defined as a “flood” in an SFIP*
 - *Covers both the mortgagor(s) and the mortgagee(s) as loss payees (borrower(s) and Lender to be listed as loss payee)*
 - *Contains the coverage and provisions specified in a SFIP, including those relating to building property coverage, personal property coverage, if purchased by the insured mortgagor(s); other coverages and the increased cost of compliance*
 - *Contains deductibles no higher than the specified NFIP max (\$10,000) for the same type of property, includes similar non-applicability provisions as under a SFIP, for any total policy coverage amount up to the max available under the NFIP at the time the policy is providing to lending institution*
 - *Provides coverage for direct physical loss caused by a flood and may exclude other causes of loss identified in a SFIP (any additional or different exclusions than those in a SFIP may only pertain to coverage that is in addition to the amount and type of coverage that could be provided by a SFIP)*
 - *Does not contain conditions that narrow the coverage that would be provided in a SFIP*

the mandatory purchase requirement (homes in a high-risk flood area/flood zone according to the flood certification)

Eligible Insurers

Flood policies that are issued by private insurers are acceptable on all loans except FHA. Homes located in a SFHA but are not in a participating community where flood insurance may be obtained, are not eligible for financing. Private insurance policies using the Discretionary requirements for compliance with the Federal Regulation are only allowed on VA and USDA loans.

Coverage and Deductible

Can cover higher amount than NFIP and deductibles may be lower. Max deductible is \$10,000

Escrow Requirements

Flood insurance must be escrowed if the property lies in a SFHA. No escrow waiver is available. If a property does not lie in a flood zone and optional flood insurance is obtained that insurance may not be escrowed.

Change in Flood Zone

If a property’s flood determination has changed, a Letter of Map Amendment (LOMA) or a new Elevation Certificate may be obtained and sent to the flood service provider for certificate amendment. If it is determined the property is no longer in the flood plain, the certificate will be updated, and flood insurance will not be required.

Condominium/Project Coverage

Master Insurance Policy: Dwelling/Building Coverage:

Project insurance is reviewed and approved by the FCM Condo Desk at the time of project approval. The following requirements are outlined for general information purposes.

Condominium Master insurance policies must have one of the following coverages:

“Single Entity” policy: Only allowed if the Master Deed allows this type of insurance to be obtained by the project. The policy must cover all of the general and limited common elements that are normally included in coverage. These include fixtures, building service equipment, and common personal property and supplies belonging to the HOA. The policy also must cover fixtures, equipment, and replacement of improvements and betterments that have been made inside the individual unit being financed. The amount of coverage must be sufficient to restore the condo unit to its condition prior to a loss claim event

- **“All-In” (sometimes known as an “all-inclusive” or “Walls-In”) policy:** The policy must cover all of the general and limited common elements that are normally included in coverage. These include fixtures, building service equipment, and common personal property and supplies belonging to the HOA. The policy also must cover fixtures, equipment, and replacement of improvements and betterments that have been made inside the individual unit being financed.
- **“Bare Walls” policy:** This policy typically provides no coverage for the unit interior, which includes fixtures, equipment, and replacement of interior improvements and betterments

Coverage Requirements:

Insurance must cover 100% of the insurable replacement cost of the project improvements, including the individual units in the project. An insurance policy that includes any of the following coverage, either in the policy language or in a specific endorsement to the policy, is acceptable:

- Guaranteed Replacement Cost—the insurer agrees to replace the insurable property regardless of the cost,
- Extended Replacement Cost—the insurer agrees to pay more than the property’s insurable replacement cost, or
- Replacement Cost—the insurer agrees to pay up to 100% of the property’s insurable replacement cost.
- Co-insurance may be acceptable as long as it is determined that the coverage is equal to 100% of the replacement cost

Required Endorsements:

- Inflation Guard Endorsement
- Building Ordinance or Law Endorsement
- Boiler and Machinery/Equipment Breakdown Endorsement

Maximum Deductible:

- 5% of Dwelling Coverage

Liability Insurance

Liability insurance in the amount of \$1 Million is required if the condominium project is reviewed under the full review method. The policy must include a severability of interest or separation of insureds clause.

Fidelity Insurance

For projects consisting of more than 20 units and reviewed under the full review method, Fidelity insurance is required. The amount of coverage must cover the maximum amount of funds that are in custody under the HOA or management company at any one time. Reductions to these requirements may be made when certain conditions exist; the requirement becomes 3x the monthly HOA dues for all units in the project. The management agent/company and all HOA representatives should be covered under the policy.

HO-6 Policies

The HO-6 insurance policy requirements vary based on the type of HOA master or blanket insurance policy. In each case, the amount of coverage is determined by the insurer and no specific percentage of appraised value is required.

Master Policy is a “Single Entity”. If the unit interior improvements are not included under the terms of this policy type, the borrower is required to have an HO-6 policy with coverage, as determined by the insurer, which is sufficient to repair the condo unit to its condition prior to a loss claim event.

Master Policy is an “All-In” (sometimes known as an “all-inclusive” or “Walls-In”) policy: If the unit interior improvements are not included under the terms of this policy type, the borrower is required to have an HO-6 policy with coverage, as determined by the insurer, which is sufficient to repair the condo unit to its condition prior to a loss claim event.

Master Policy is a “Bare Walls” policy: This policy typically provides no coverage for the unit interior, which includes fixtures, equipment, and replacement of interior improvements and betterments; the borrower must obtain an individual HO-6 policy that provides coverage sufficient to repair the condo unit to its condition prior to a loss claim event, as determined by the insurer. In general, this type of policy should have a larger percentage of dwelling value than any other type of HO-6 policy.

Escrow Requirements

Master Insurance Policy: N/A

HO-6 Policy: The HO-6 policy is not required to be escrowed at any LTV, however, when waived, an LLPA escrow waiver fee does apply.