



first community mortgage

First Community Mortgage Requirements for Review and

Acceptance of Private Flood Insurance Policy

Effective: 7/1/2019; Revised 12/1/2022

In compliance with changes to federal flood insurance requirements, we are updating our private flood insurance policy as well as our acceptance and requirements process. There are 2 entities that can write flood insurance and there are different requirements for each one.

1. National Flood Insurance Program (NFIP) Standard Flood Insurance Policy (SFIP). This is what we currently see on loans – this one is business as usual – no changes.
2. Private Flood Insurance (PFI) Companies – this has changes as outlined below in the key provisions.

Key Provisions for Private Flood Insurance Policies (see FHA section below for FHA requirements for accepting PFI):

Below are the key provisions for accepting private flood insurance from a private insurance company as per the Biggert-Waters Flood Insurance Reform Act.

- **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*



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- 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)

Requirements for accepting (see FHA section below for FHA requirements for accepting PFI):

We will need a copy of the policy **and** one of the following:

1. **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** shown below 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.'**
2. **Mandatory Acceptance:** Lenders must accept the private flood insurance policy if it meets:
 - a. the Biggert-Waters (BW) definition of private flood insurance
 - i. issued by an insurance company that is licensed, approved to do business in subject property state by the insurance regulator of that state/
 - ii. 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
 1. Definition of 'as broad as':
 - a. Defines the term "flood" to include the events defined as a "flood" in an SFIP
 - b. Covers both the mortgagor(s) and the mortgagee(s) as loss payees (borrower(s) and Lender to be listed as loss payee)
 - c. 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
 - d. 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



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- e. *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*
 - f. *Does not contain conditions that narrow the coverage that would be provided in a SFIP*
- b. *the mandatory purchase requirement (homes in a high-risk flood area/flood zone according to the flood certification)*

FHA requirements for accepting Private Flood Insurance (PFI) Policy:

¹The policy changes will be incorporated into Handbook 4000.1 as follows:

General Property Eligibility (II.A.1.b.iv(A))

(1) Special Flood Hazard Areas

The Mortgagee must determine if a Property is located in a Special Flood Hazard Area (SFHA) as designated by the Federal Emergency Management Agency (FEMA). The Mortgagee must obtain flood zone determination services, independent of any assessment made by the Appraiser, to cover the Life of the Loan Flood Certification.

A Property is not eligible for FHA insurance if:

- a residential building and related improvements to the Property are located within any SFHA Zone beginning with the letter A, a Special Flood Hazard Area, or any Zone beginning with the letter V, a Coastal High Hazard Area, and insurance under the National Flood Insurance Program (NFIP) is not available in the community; or the improvements are, or are proposed to be, located within the Coastal Barrier Resources System (CBRS).

To be eligible for FHA insurance, a Property located in an SFHA must be in a community that participates in the National Flood Insurance Program (NFIP) and has NFIP available, regardless of whether the Borrower obtains NFIP coverage.

(a) Flood Insurance

(i) Definitions

Flood Insurance refers to insurance provided by a National Flood Insurance Program (NFIP) or a Private Flood Insurance (PFI) policy that covers physical damage by floods.

A National Flood Insurance Program (NFIP) policy refers to insurance managed by the Federal Emergency Management Agency (FEMA) that covers physical damage by floods.

A Private Flood Insurance (PFI) policy refers to insurance provided by a private insurance carrier that covers physical damage by floods.

(ii) Standard

(A) Eligible Properties

If the property improvements (dwelling and related structures/equipment essential to the value of the Property and subject to flood damage) are located in an area designated by FEMA as an SFHA and NFIP insurance is available in that community, the Mortgagee must ensure the Borrower obtains and maintains Flood Insurance.

(B) Required Flood Insurance Coverage

¹ FHA Single Family Housing Policy Handbook 4000.1



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For Properties located within an SFHA, Flood Insurance must be maintained for the life of the Mortgage in an amount at least equal to the lowest of the following:

- 100 percent replacement cost of the insurable value of the improvements, which consists of the development or project cost less estimated land cost;
- the maximum amount of NFIP insurance available with respect to the particular type of Property; or
- the outstanding principal balance of the Mortgage. Mortgagee Letter 2022-18,

(C) Requirements for PFI

If the Borrower purchases a PFI policy in lieu of an NFIP policy, the Mortgagee must ensure the PFI policy meets the following requirements:

- is issued by an insurance company that is licensed, admitted, or otherwise approved to engage in the business of insurance in the state or jurisdiction in which the Property to be insured is located, by the insurance regulator of the state or jurisdiction; or, in the case of a policy of difference in conditions, multiple peril, all risk, or other blanket coverage insuring nonresidential commercial property, is recognized, or not disapproved, as a surplus lines insurer by the insurance regulator of the state or jurisdiction where the Property to be insured is located;
- provides Flood Insurance coverage that is at least as broad as the coverage provided under a standard Flood Insurance policy under the NFIP for the particular type of property, including when considering exclusions and conditions offered by the insurer;
- includes deductibles that are no higher than the specified maximum, and includes similar nonapplicability provisions, as under a standard flood insurance policy under the NFIP;
- includes a requirement for the insurer to provide written notice 45 Days before cancellation or nonrenewal of Flood Insurance coverage to the Borrower and the Mortgagee. In cases where the Mortgagee has assigned the loan to HUD, the insurer must provide notice to HUD and, where applicable, to the Borrower;
- includes information about the availability of Flood Insurance coverage under the NFIP;
- includes a mortgage interest clause similar to the clause contained in a standard Flood Insurance policy under the NFIP;
- includes a provision requiring the Borrower to file suit no later than one year after the date of a written denial for all or part of a claim under the policy; and
- contains cancellation provisions that are as restrictive as the provisions contained in a standard Flood Insurance policy under the NFIP.

(iii) Private Flood Insurance Policy Compliance Aid

(A) Definition

The Private Flood Insurance (PFI) Policy Compliance Aid is the statement: "This policy meets the definition of private flood insurance contained in 24 CFR 203.16a(e) for FHAinsured mortgages."

(B) Standard

The PFI Policy Compliance Aid may be made by the insurance provider, attesting that a PFI policy meets the requirements of Flood Insurance. The Mortgagee may rely on the PFI Policy Compliance Aid to determine whether a PFI policy meets the Flood Insurance requirements. A Mortgagee may not reject a policy solely because it is not accompanied by a PFI Policy Compliance Aid.

(iv) Required Documentation



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For Properties located within an SFHA, the Mortgagee must include in the Case Binder:

- a Life of Loan Flood Certification for all Properties;
- if applicable, include a:
 - o FEMA Letter of Map Amendment (LOMA);
 - o FEMA Letter of Map Revision (LOMR); or
 - o FEMA NFIP Elevation Certificate (FEMA Form 086-0- 33); and
- a copy of the certificate of Flood Insurance or complete copy of the Flood Insurance policy, if required. (v) Required Reporting The Mortgagee must report the required Flood Insurance information in the insurance application screen in FHAC.

Reviewing the Private Flood Policy for Compliance and Acceptance

There will be multiple steps through-out the life cycle/process of a loan to ensure compliance with Private Flood Insurance Policy requirements as noted above.

If a file has flood insurance and a borrower has a private flood insurance policy, we will need a 2-level review of the policy. This 2-level review will consist of processing/client coordinators, underwriting, production desk(etail) and/or management team members.

If you have a loan where neither option 1 or 2 above meet the requirements as detailed, we have an option 3 for discretionary requirements, however, the review for this option must be done by the FCM compliance department. Please send your request for this review to compliancequestions@fcmpartners.com. We will review the private flood insurance policy for the discretionary requirements to see if the policy is acceptable under these requirements.

Escrow/Impound Account Requirements

If property is in a flood zone and flood insurance is required, any/all flood insurance premiums, regardless of company writing the policy, must be escrowed even if the LTV is below 80% or the loan program does not require escrows. There are no exceptions to waive flood insurance escrow accounts when flood insurance is required. If property is not in a flood zone and optional flood insurance is purchased, escrows are not required.

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First Community Mortgage, Inc. NMLS #629700



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