## DETERMINING FLOOD INSURANCE REQUIREMENTS

It is the policy of Flagstar Bank that it shall not make, increase, extend or renew any Designated Loan [1] unless a flood determination is obtained and the residential building(s) [2] or mobile homes(s) [3] and any applicable personal property securing the loan is covered by flood insurance for the term of the loan if the subject property is in a SFHA. In addition, for the purposes of this policy, all loan modifications shall be considered to be a renewal or extension. Under no circumstances can an originator release a borrower from the mandatory flood insurance requirement. However, determinations are not required for loans under $5,000 that have a term of less than one (1) year.

## FLOOD DETERMINATIONS

Flood determinations can be ordered by either the Flagstar Underwriting Department or by the wholesale customer via Loantrac. However, Flagstar Bank will only accept Standard Flood Hazard Determination Forms (SFHDF). In addition, Flagstar Bank requires that flood certifications are ordered on a life-of-loan basis through the Bank's approved vendor (currently Core Logic). In addition, it is the policy of the Bank that it will not rely on a previous flood determination under any circumstances.

To meet FEMA requirements the flood certification should include the following information:

- Flood zone determination on a Standard Flood Hazard Determination Form (SFHDF)
- Community and panel number
- Date of the flood map
- Flood zone and status of community (NFIP participating or non-participating) http://www.fema.gov/cis/nation.html

Any flood zone beginning with an A or V is considered a Special Flood Hazard Area (SFHA).

## FLOOD INSURANCE REQUIREMENTS

Sellers should take appropriate action to ensure borrowers are made aware of flood insurance requirements and deliver the notice to the borrower as soon as the Seller is aware the property is located in the SFHA or at least ten days prior to closing. Instances where notices are provided less than ten days before closing are only meant to allow for exceptional scenarios where the lender is not made aware of the flood zone until late in the origination process due to map modifications or other similar circumstances. At a minimum, the notice must be provided to the borrower one day prior to closing, but only when doing so would be considered reasonable under the circumstances.

If it is determined that the property is located in a SFHA, the originator should then determine if the community in which the property is located participates in the National Flood Insurance Program (NFIP). If the property is located in a SFHA and in a participating community, federal flood insurance is available under NFIP and will be required on the loan. However, if it is determined that the property is located in a SFHA but in a non-participating community, NFIP flood insurance will not be available and it is Flagstar Bank policy that it will not make, extend, renew or increase these types of loans. In addition, Flagstar will not accept or approve any loans secured by property located in a Costal Barrier Resources Area (CBRA) or Otherwise Protected Area (OPA).

Regardless of the community's NFIP participation, the originator is required to notify the borrower when the property is located in a SFHA.

1. **A loan secured by a building or mobile home that is located or to be located in a special flood hazard area in which flood insurance is available under the Act.**
2. **A walled and roofed building, other than a gas or liquid storage tank, that is principally above ground and affixed to a permanent site and a walled and roofed building while in the course of construction, alteration, or repair.**

3. **A building (transportable in one or more sections) that is built on a permanent chassis and designed for use with or without a permanent foundation when attached to the required utilities. The term mobile home does not include a recreational vehicle. For purposes of this part, the term mobile home means a mobile home on a permanent foundation. The term mobile home includes a manufactured home as that term is used in the NFIP. Flagstar Bank will not finance a manufactured home without a permanent foundation.**

## DISCREPANCIES

The borrower or originator should contact the flood certification company to dispute any flood zone determination. The flood certification company should utilize an overlay of flood maps, combined with tax maps to ensure 100% accuracy on each determination when the findings are disputed. An elevation survey is not to be used to determine whether the borrower can be released from the flood insurance requirement. Instead, a valid Letter of Map Amendment (LOMA) or Revision/Change (LOMR/LOMC) must be issued by FEMA.

## NOTICE REQUIREMENTS/ DISCLOSURES

In the event that the subject property is located in a SFHA in a NFIP participating community, the originator must endeavor to notify the borrower in writing 10 days before closing unless exceptional circumstances exist (see Flood Insurance Requirements). The *Notice to Borrower of Property in Special Flood Hazard Area*, Doc. #r3214 or identical FEMA model language, must be used to provide such notification. This document discloses the following information:

- The Community Name as stated on the Standard Flood Hazard Determination Forms (SFHDF)
- That the property securing the loan is located in a special flood hazard area.
- Whether the community in which the property is located participates in the NFIP.
- Whether federal disaster relief assistance will be available in the event of flooding.

The *Notice to Borrower of Property in Special Flood Hazard Area*, Doc. #r3214, must be dated and signed by at least one borrower within the time frame set forth above. The signed and dated copy must be retained on file.

Massachusetts properties located in a SFHA must have *Massachusetts Notice to Borrower of Property in a Special Flood Hazard Area,* Doc. #r3952 dated and signed by at least one borrower within the timeframe set forth above. Massachusetts requires specific language when notifying borrowers that their property is located in a SFHA. The language is as follows:

Please note that the flood insurance we are requiring you to purchase will only protect your creditor or lender's interest in your property. Massachusetts law prohibits a creditor or lender from requiring you to purchase flood insurance in excess of the amount of your principal mortgage and, in the case of a home equity line of credit, home equity loan, or second and subsequent mortgage the full value of the credit line, outstanding principal on the equity loan or second or subsequent mortgage on that property at the beginning of the year for which the policy will be in effect. The insurance may not be sufficient to pay for many needed repairs after a flood and may not compensate you for your losses in the property due to the flood. If you wish to protect your home or investment, you may want to purchase more flood insurance than the amount we are requiring you to buy.

In the event that the subject property is located in a SFHA but not in a NFIP participating community, it is Flagstar Bank's Policy that it will not make, extend, renew or increase the loan. However, the originator is still required to provide notification that includes the following:

- Notice to the borrower that the property is or will be located in a Special Flood Hazard Area.
- Notice to the borrower about the unavailability of Federal Disaster Relief Assistance. This notice states that the community is not participating in the NFIP and the property is not eligible for federal flood insurance. If the property is damaged by flooding in a federally declared disaster, federal disaster relief

assistance will not be available if the community has been identified as a flood prone area for a year or longer.

- Borrower name and community name for which the flood map was issued.

In the event that the property is not in a SFHA, it is the policy of Flagstar Bank to place an at closing condition for flood insurance notification to ensure that the borrower signs an acknowledgment that any map revisions may require them to obtain flood insurance at any time during the life of the loan.

**INSURANCE EVIDENCE**

Flood insurance must be in the form of the standard policy issued by members of the National Flood Insurance Program (NFIP) or by licensed property and casualty insurance companies that are authorized to participate in the NFIP Write-Your-Own program. For a list of the private insurance companies that, through an agreement with the Federal Insurance and Mitigation Administration, sell and service Federal flood insurance policies, please see FEMA's Write Your Own Flood Insurance Company List.

On Conventional loans only, we will accept private flood insurance if it is available for the property, contains terms and an amount of coverage at least equal to that provided under an NFIP policy, meets the requirements listed below and we receive *Certification of Adequacy of Private Flood Insurance by Agent*, Doc. #r3215. The insured property must be located in an NFIP participating community.

LICENSURE

The insurance company is licensed, admitted, or otherwise approved to engage in the business of insurance in the State or jurisdiction where the insured building is located, by the insurance regulator of that State or jurisdiction, except as indicated in Surplus Lines Recognition below.

SURPLUS LINES RECOGNITION (NON- RESIDENTIAL COMMERCIAL)

In the case of a policy of difference in conditions, multiple peril, all risk or other blanket coverage insuring non-residential commercial property, the insurance company is recognized, or not disapproved, as a surplus lines insurer by the insurance regulator of the State or jurisdiction where the building to be insured is located.

REQUIREMENT OF 45 DAY CANCELLATION/NON-RENEWAL NOTICE

The private flood insurance policy includes a requirement for the insurer to give a written notice within 45 days of cancellation or non-renewal of the flood insurance coverage to the insured and the regulated lending institution or Federal agency lender . The policy includes information about the availability of flood insurance coverage under the NFIP. The policy is as restrictive in its cancellation provisions as the Standard Flood Insurance Policy (SFIP) under the NFIP.

BREADTH OF POLICY COVERAGE

The policy provides flood insurance coverage that is at least as broad as the coverage provided under a SFIP under the NFIP, including when considering deductibles, exclusions, and conditions offered by the insurer.

STRENGTH OF THE MORTGAGEE CLAUSE

The policy must contain a mortgage interest clause similar to the clause contained in a SFIP under the NFIP.

LEGAL RECOURSE

The policy must contain a provision that the insured must file suit within one year after the date of written denial of all or part of the claim under the policy.

The insurance company must be rated in A.M. Best Rating of Financial Strength in Best Insurance Reports as a B or better.

Acceptable evidence of private flood insurance includes a Declarations Page, or an application and paid receipt. If a Declarations Page is submitted as proof of insurance, it must include the flood insurance policy number and the identity of, and contact information for, the insurance company or agent.

According to FEMA guidelines, there must be evidence of flood insurance at the loan closing; however, Flagstar Bank requires such evidence prior to the loan being cleared to close.

In escrow states, the effective date of the flood insurance, as reflected in the documentation evidencing coverage, must not be later than the funding date as shown on the HUD 1.

In non-escrow states, the effective date of the flood insurance, as reflected in the documentation evidencing coverage, must not be later than the date the note was signed.

For purchase transactions, a one year paid receipt and an application or policy (dec page) is required prior to closing (a binder and/or proof of flood insurance premium collected on the HUD-1 is not acceptable). It is possible to transfer a flood policy on a purchase transaction to another owner if at least 30 days are remaining on the policy at the time of closing/purchase. On a transferred policy, no additional money is collected at the table for the insurance company. The remaining months left on the policy will be prorated on the HUD. If the remaining months left on the policy were not prorated on the HUD, they would be considered seller contributions and would need to meet the seller contribution requirements.

For a refinance transaction, an existing policy may be used, provided that the policy has a minimum of 30 days remaining before expiration/renewal from the date of closing/purchase. If the policy has less than 30 days remaining from the time of closing a copy of the renewal policy along with a 1 year paid receipt will be required prior to close.

Flood policies and applications provided prior to closing must indicate the flood zone of the property. This zone must match our flood determination provider's zone. Otherwise, evidence that the borrower's zone is "grandfathered" must be provided from the flood insurance company or insurance agency that states the policy is "grandfathered." If the improvements are in a split zone (partially in and partially out) the policy must be rated for the more hazardous zone.

**ESCROW REQUIREMENTS**

If the collateral securing the loan meets the definition of "residential improved real estate" and the lender requires escrows for any other items (e.g., hazard insurance, taxes and/or PMI), then the lender is required to also escrow flood insurance premiums.

**DEDUCTIBLES**

Deductibles may not exceed $5,000 for 1 to 4-Family properties and $25,000 for the HOA's policy for Condominiums/Attached PUD's and Attached Cooperatives. Deductibles cannot be equal to or exceed the amount of the insurable value of residential and non-residential buildings.

## MORTGAGEE CLAUSE

Although Flagstar will accept policies which show the correspondent as the loss payee, upon purchase of the loan by Flagstar, the correspondent must immediately send an endorsement notice requesting the insurance provider to update the policy to Flagstar as the new loss payee, using the name and address below. Correspondents must immediately forward to Flagstar all insurance related trailing documents that they may receive while the policies still show them as mortgagee following the funding of the loan. These documents must be sent to the Flagstar Bank address shown below.

If more than one policy is required, an endorsement letter for each policy must be submitted to the insurance provider.

In the event that Flagstar is already listed as the mortgagee on the insurance policy at the time of purchase, the mortgagee clause appearing on the borrower's flood insurance for all loans, including HELOCs, must read:

| Broker | Correspondent | | |
| --- | --- | --- | --- |
| Flagstar Bank<br>Its Successor and/or assigns<br>P.O. Box 7026<br>Troy, MI 48007-7026 | Lender's name as reflected on the Note/Security Instrument<br>Its Successor and/or assigns<br>(Lender's address); | **or** | Flagstar Bank<br>Its Successor and/or assigns<br>P.O. Box 7026<br>Troy, MI 48007-7026 |

## FLOOD INSURANCE COVERAGE REQUIREMENTS

For all designated loans, flood insurance coverage must meet the following coverage requirements. Lenders, while not required by statute, may choose to require insurance above these amounts after evaluating the risk to which the property is exposed.

For all Designated Loans, flood insurance is required on a property under FEMA guidelines. Per Flagstar's Flood Insurance Policy, the amount of insurance on a building located in a SFHA in a participating community is the lesser of the:

- The maximum insurance available from the NFIP, which is currently $250,000 per dwelling;
- The unpaid principal balance (UPB) of all Flagstar loans plus all superior liens on the property;
- 100% of the insurable value of the improvements

The following options are available to determine the insurable value, or replacement cost of improvements:

1. Use the amount identified as the "replacement cost" on the Declaration Page of the flood insurance policy; If this is not available, then,
2. The replacement value as established on the hazard insurance policy. The replacement cost of the hazard insurance must state it includes the foundation. Under no circumstances should the insurable value be based on the coverage amount used in a hazard insurance policy. If this is not available, then,
3. The replacement cost of the improvements from the appraisal.

### 1 TO 4-FAMILY PROPERTIES

Building coverage must be maintained in an amount at least equal to the lesser of:

- The maximum insurance available from the NFIP, which is currently $250,000 per dwelling;
- The unpaid principal balance (UPB) of all Flagstar loans plus superior liens on the property;
- 100% of the replacement cost of the insurable value of the improvements.

The following options are available to determine the insurable value, or replacement cost of improvements:

1. Use the amount identified as the "replacement cost" on the Declaration Page of the flood insurance policy; If this is not available, then,
2. The replacement value as established on the hazard insurance policy. The replacement cost of the hazard insurance must state it includes the foundation. Under no circumstances should the insurable value be based on the coverage amount used in a hazard insurance policy. If this is not available, then,
3. The replacement cost of the improvements from the appraisal.

Refer to the guidance below relating to coverage when there are multiple buildings on one parcel.

The deductible may not exceed $5,000 for a 1 to 4-Family Property.

PUD PROPERTIES

If the project has attached units, the Homeowners Association (HOA) should carry flood insurance if any units are located in a SFHA. Coverage under the policy must be equal to the lesser of:

- The maximum available of $250,000 per unit. To determine the coverage per unit, it is acceptable to divide the amount of coverage by the number of units listed on the flood insurance policy. If this results in coverage equal to $250,000 per unit, the policy is acceptable. If it is less than $250,000 it is not acceptable;
- The unpaid principal balance (UPB) of all Flagstar loans plus all superior liens on the property;
- 100% of the replacement cost as determined by the insurance provider.

In the event that a unit is in a SFHA and the Association does not carry a master flood policy or it carries such a policy but coverage is insufficient, a supplement policy must be obtained by the borrower to equal the lesser of the following:

- The maximum available of $250,000;
- The unpaid principle balance (UPB) of all Flagstar loans plus all superior liens on the property;
- 100% of the replacement cost as determined by the insurance provider.

Example: Assuming the master policy does not cover 100% replacement. If the master policy divided by the number of units on the policy equals $200,000 and the UPB is $225,000 the borrower would be required to obtain a supplemental flood insurance policy for at least $25,000 for a total coverage of UPB.

The deductible may not exceed $25,000 for the HOA's policy. Funds for such deductibles must be included in the association's reserves and must be so designated.

IF THE PUD DOES NOT HAVE ATTACHED UNITS, REFER TO 1 TO 4-FAMILY PROPERTY COVERAGE REQUIREMENTS.

CONVENTIONAL CONDOMINIUMS

There are several methods to comply with the flood insurance requirements for Condominiums.

The Association should carry a flood insurance policy for the project with attached units if any units are located in a SFHA. Coverage under the policy must be equal to the lesser of:

- The maximum available of $250,000 per unit. To determine the coverage per unit, it is acceptable to divide the amount of coverage by the number of units listed on the flood insurance policy. If this results in coverage equal to $250,000 per unit, the policy is acceptable. If it is less than $250,000 it is not acceptable;

- 80% of the replacement cost as determined by the insurance provider.

Any attached condo projects without a master policy or if the master policy does not meet the requirements above, the loan is ineligible for purchase by Flagstar Bank. In addition, if the coverage provided under the master policy is less than $250,000 per unit or 100% replacement cost, the borrower must provide a unit owners policy to meet the 1 to 4-Family Property requirements listed below:

- The maximum insurance available from the NFIP, which is currently $250,000 per dwelling
- The unpaid principle balance (UPB) of all Flagstar loans plus all superior liens on the property
- 100% replacement cost of the insurable value of the improvements

Example: Assuming the master policy does not cover 100% replacement. If the master policy divided by the number of units on the policy equals $200,000 and the UPB is $225,000 the borrower would be required to obtain a supplemental flood insurance policy for at least $25,000 for a total coverage of UPB.

The deductible may not exceed $25,000 for the Association's policy. Funds for such deductibles must be included in the Association's reserves and must be so designated.

Coverage for site (detached) condominiums is calculated under guidance for the 1 to 4-Family Properties described above.

FHA CONDOMINIUMS

The Association must carry flood insurance for the project with attached units if any units are located in a SHFA. Coverage under the policy must be equal to the lesser of:

- The maximum available of $250,000 per unit. To determine the coverage per unit, it is acceptable to divide the amount of coverage by the number of units listed on the flood insurance policy. If this results in coverage equal to $250,000 per unit, the policy is acceptable. If it is less than $250,000 it is not acceptable, or
- 100% of the replacement cost as determined by the insurance provider

The deductible may not exceed $25,000 for the HOA's policy. Funds for such deductibles must be included in the association's reserves and must be so designated.

If the project does not carry sufficient coverage, the borrower may not obtain coverage in lieu of HOA coverage and the property and project are not eligible.
Site (detached) condominiums fall under calculation guidance for 1 to 4-Family Properties described above.

COOPERATIVE – CONVENTIONAL ONLY

The Co-op corporation must have a separate flood insurance policy with coverage equal to or greater than $500,000 for each building. To qualify for a residential flood insurance policy, 75% of the area in the co-op building must be used for residential purposes. If this condition is met, NFIP flood coverage is limited to $500,000 for the building. The NFIP does not issue a Dwelling Form policy to unit owners in a cooperative.

MANUFACTURED (MOBILE) HOUSING

To be eligible for coverage under the NFIP, a manufactured (mobile) home must be on a permanent foundation and must meet specific anchoring requirements for its location. A manufactured home is a structure built on a permanent chassis, transported to the site in one or more sections, and affixed to a permanent foundation.

Manufactured homes that require flood insurance must have a separate flood insurance policy. Homeowner/Mobile home policies that include flood under one policy are not acceptable under any circumstances when Flood Insurance is required. This will not meet investor requirements or NFIP Cancellation/Nullification Provisions. A separate flood insurance policy is required.

Coverage for manufactured (mobile) housing is calculated under guidance for the 1 to 4-Family Properties described above.

MULTIPLE BUILDINGS ON ONE PARCEL

More than one flood policy may be required depending upon the number and type of buildings on the parcel. Coverage requirements for detached residential buildings on one parcel, detached non-residential buildings on one parcel and detached garages are as follows:

## FHA, VA AND JUMBO LOANS

### *MULTIPLE RESIDENTIAL BUILDINGS ON ONE PARCEL*

If the property secured by the mortgage has multiple residential buildings in the SFHA, per FEMA, a separate flood insurance policy must be provided for each residential building that secures the loan. Please refer to the 1 to 4-Family property section for coverage requirements.

### *MULTIPLE DETACHED NON-RESIDENTIAL BUILDINGS ON ONE PARCEL*

Flood insurance is required if any building with two or more outside walls, a fully secured roof and foundation serving as security for the loan is located in a Special Flood Hazard Area (SFHA). This includes any detached building that is part of the security instrument. Flood insurance is required on the detached building even if the building is given no value by the appraiser.

### *DETACHED GARAGE*

If the property securing the mortgage has a detached garage, a separate policy is not required if the garage is not being used for residential, business or farming purposes and the dwelling has a sufficient flood insurance policy. The policy will not notate the additional coverage of the detached garage. If only the detached garage is located in a SFHA, a separate flood insurance policy must be provided. Please refer to the 1 to 4-Family property section for coverage requirements.

If only the detached garage is located in a SFHA, a separate flood insurance policy, which may be non-residential, must be provided. For detached garages that are considered non-residential, the actual cash value must be used for the coverage amount. Please refer to the 1-4 family property section for residential coverage requirements.

## CONVENTIONAL LOANS

### *MULTIPLE RESIDENTIAL BUILDINGS ON ONE PARCEL*

If the property secured by the mortgage has multiple residential buildings in the SFHA, per FEMA, a separate flood insurance policy must be provided for each residential building that secures the loan. Please refer to the 1 to 4-Family property section for coverage requirements.

### *MULTIPLE DETACHED NON-RESIDENTIAL BUILDINGS ON ONE PARCEL*

Flood insurance is not required for conventional loans for detached structures that are not residential.

***DETACHED GARAGE***

A separate flood policy is not required for detached garages located in a flood zone if the loan is a conventional loan.

MULTIPLE PARCELS

When the security property consists of more than one parcel of real estate, the parcels must meet the following conditions:

- Each parcel must be conveyed in its entirety
- Parcels must be adjoined to the other
- Each parcel must be zoned as residential
- Only one parcel may have a dwelling-unit (limited non-residential improvements such as a garage are acceptable)
- The mortgage must be a valid first lien on each parcel

Due to the requirement that only one parcel may have a dwelling unit, the same flood requirements must be followed as for a 1 to 4-Family residence.

HELOC

If the property securing the HELOC is located in a SFHA, flood insurance is required.
To determine the amount of coverage required, generally refer to the 1 to 4-Family Property coverage requirements. However, when determining the unpaid principal balance (UPB) of the mortgage, one must ensure that they add the UPB of all superior mortgages to the total line of credit available under the HELOC to determine UPB for the purpose of flood insurance coverage.

CONSTRUCTION LOANS

For construction loans, the minimum amount of required flood insurance may be calculated as the lesser of the three options listed below.

- The maximum insurance available from the NFIP (as defined above);
- The unpaid principle balance (UPB) of all Flagstar loans plus all superior liens on the property;
- 100% of the replacement cost of the insurable value of the improvements (defined as the construction cost).