



**MFM Bulletin: 012-2024**

**Date:** May 30, 2024

**Subject:** Hazard and Flood Insurance Requirement Updates

MFM has updated our Hazard and Flood Insurance Policy Requirements to incorporate changes made earlier this year and previously communicated in MFM Bulletin 004-2024. The new requirements are as follows:

- The policy must state specifically that all claims must be settled on a replacement cost basis, and;
- The policy must verify the actual Replacement Cost Value (RCV) of the property.

Attached are MFM's complete Hazard Insurance Requirements and Flood Insurance Requirements. These documents provide valuable information for all loan types, including:

- Hazard and Flood policy required terms for purchase and refinance transactions
- Minimum coverages required for both hazard and flood insurance
- Maximum deductibles for all loan types
- Special requirements for Condominiums/PUDS
- Requirements for both NFIP and Private Flood Insurance policies

Please contact the MFM Processing, Closing, or Underwriting departments ([processing@memberfirstmortgage.com](mailto:processing@memberfirstmortgage.com), [closing@memberfirstmortgage.com](mailto:closing@memberfirstmortgage.com), [underwriting@memberfirstmortgage.com](mailto:underwriting@memberfirstmortgage.com)) if you have any questions or concerns.

Thank you

# Hazard Insurance Requirements



Hazard insurance coverage must insure all buildings and improvements to the mortgaged property. The Borrower is required to maintain the policy at the Borrower's expense for the duration of the Mortgage Loan.

## Hazard Insurance Term

Purchase Transactions – the policy must:

- Be written for a 12-month term, and
- Be in effect as of loan disbursement date, and
- Extend and be paid for minimum 12 months from the date of closing.

Refinance Transactions – new or existing policy is acceptable, provided:

- The new or existing policy was written for a 12-month term,\* and
- Existing coverage extends a minimum of 60 calendar days beyond the loan closing date. If the policy will expire within 60 calendar days, a 30-day binder or evidence of renewal for one-year (12-month) term is required.

## Hazard Insurance Declarations Page or Binder

A hazard insurance declarations page, certificate of insurance or insurance binder accompanied by proof of payment is required for all loans. (See Hazard Insurance Term.)

- Condo hazard insurance documentation must include unit interior coverage (HO-6) as applicable (see below under Condominium Insurance Requirements).
- The full name of all borrowers and title holders must be included in the policy.

## Mortgagee Clause

Each hazard insurance policy must have the standard mortgagee clause below. The mortgagee clause must provide that the insurance carrier notifies the lender at least ten calendar days before the effective date of any termination, reduction or cancellation of the policy under the mortgagee clause.

*Mortgagee Clause for loans MFM will service and serviced released loans:*

Member First Mortgage, LLC

ISAOA/ATIMA

PO Box 3216

Carmel, IN 46082-3216

*If Credit Union Servicing:*

Mortgagee Clause will be in the name of the name of the Credit Union. See list of Credit Unions who service their own loans and appropriate Mortgagee clause for each.

## Adequacy and Availability of Insurance

The following is required on all Home - Owners Insurance Policies:

- **The policy must specifically state that all claims must be settled on a replacement cost basis.** Insurance policies that provide for claims to be settled at actual cash value, or limit, depreciate, reduce or otherwise settle losses for less than the replacement costs basis are not eligible.
- **The policy must verify the actual replacement cost value (RCV) of the property as of the date of the current policy.** If the agent cannot provide this information on the policy itself, then an e-mail from the agent providing the replacement cost information or a replacement cost estimator would be acceptable.

## Minimum Hazard Insurance Coverage

Coverage must be at least equal to the lesser of the following:

- 100% of the replacement cost value of the improvements (replacement cost) as established by the property insurer; or
- The unpaid principal balance of the mortgage, as long as it equals no less than 80% of the replacement cost value of the improvements. If it does not, then coverage that does provide the minimum required amount must be obtained.
- **Policies must cover wind, hail damage, Fire or lightning, explosion, hail, smoke, aircraft, vehicles or riot or civil commotion or catastrophe insurance unless the coverage is provided in another policy with the same coverage limits as the hazard policy.**
- The policy must contain the required coverage for properties in areas of high risk for hurricane, windstorms, and other natural disasters. \*

Currently, 19 states, plus Washington, D.C., mandate windstorm and hurricane deductibles: Alabama, Connecticut, Delaware, Florida, Georgia, Hawaii, Louisiana, Maine, Maryland, Massachusetts, Mississippi, New Jersey, New York, North Carolina, Pennsylvania, Rhode Island, South Carolina, Texas, and Virginia.

## Maximum Deductibles (all loan programs)

- The maximum deductible allowed for insurance covering a property (including common elements in a PUD or condominium project) is 5% of the face amount of the policy.
- When a policy provides for a separate wind-loss deductible (either in the policy itself or in a separate endorsement), that deductible must be no greater than 5% of the face amount of the policy.

# Hazard Insurance Requirements

## Condominium Insurance Requirements

The following are required for all condominium hazard insurance policies:

- **Property Insurance:** The homeowners' association (HOA) must maintain a master property insurance policy that provides coverage for the full insurable replacement cost of the project improvements including the units. If the legal documents allow individual policies to be held, condo projects may comply with single-family property insurance requirements. If master condo insurance policy does not cover the interior unit (walls-in) then: **See below under Walls-In Coverage.**
- **Liability Policy:** Current master condominium insurance policy must provide at least \$1 million commercial liability insurance covering all common areas, common elements, commercial spaces and public ways in the condominium project.
- **Fidelity Bond Insurance:** Is required on condominium projects with more than 20-units Fidelity Bond/  
**Fidelity Insurance:** Fidelity Insurance refers to insurance that protects the Condominium Association against employee dishonesty, crime or other fraudulent acts conducted by one or more employees. The Condominium Association must maintain Fidelity Insurance for all officers, directors and employees of the Condominium Association and all other persons handling or responsible for funds administered by the Condominium Association.

Required coverage is the greater of:

- Three months aggregate (12-month) assessments on all Units plus reserve funds (up to the maximum permitted by state law); or
- The minimum amount required by state law.

If the Condominium Project engages a management company, it must have a policy that covers both or separate policies. The policy or policies must demonstrate that they specifically meet the standard for both the Condominium Association and the management company.

## Walls-in Coverage

- The walls-in (H0-6) policy or equivalent must state that it provides coverage for 100% of the insurable value of the interior improvements and betterments. The amount of coverage must be sufficient to restore the unit to its condition prior to a loss claim event, or
- Provide the breakdown or "cost estimator" from the insurance company on how they determined the amount of coverage provided to restore the unit to its condition prior to a loss claim event, or
- Obtain a statement from insurance company that this is the maximum they will insure and that this is sufficient to restore the unit to its condition prior to a loss claim event.

# Hazard Insurance Requirements



## PUD Insurance Requirements

- Generally, if the individual units are covered by insurance purchased by their respective owners, then the policy must meet all applicable requirements as stated above in general Hazard Insurance Section.
- PUD homeowners' association must maintain "all risk" coverage for common areas and property for 100% of their insurable value and provide for loss or damage settlement on a replacement cost basis, with premiums being paid as a common expense. The policy must cover all of the common elements except for those that are normally excluded from coverage, such as land,
- Individual insurance policies are also required for each unit mortgage. If the project's legal documents allow for blanket insurance policies to cover both the individual units and the common elements, sufficient to restore the unit to its condition prior to a loss claim event.

## Standard Flood Hazard Determination (SFHD)

Each loan must include the Federal Emergency Management Agency (FEMA) Standard Flood Hazard Determination (FEMA Form 086-0-32) used in determining whether any of the improvements for a subject property are located within an identified "Special Flood Hazard Area" (SFHA).

- If Standard Flood Hazard Determination states that the property is located in a **zone beginning with A or V, then the property is located in a flood zone and requires flood insurance.**
- If property improvements are within flood hazard area, but insurance is not available because a community does not participate in the National Flood Insurance Program (NFIP), then property is NOT ELIGIBLE FOR FINANCING – regardless of whether the borrower obtains NFIP or private flood insurance coverage.

## Notice given to borrower of Special Flood Hazards and Availability of Federal Disaster Relief Assistance

If any part of the principal structure is located within an SFHA:

- Borrower must be provided with the Notice of Special Flood Hazards and Availability of Federal Disaster Relief Assistance (page 2 of the Flood Certification) no later than 10 calendar days prior to closing.
- A copy of the form, signed by all borrowers must be in the loan file.

## Location of Property Within the SFHA

- Flood Insurance is required if any part of the **principal structure** is located within a SFHA. Flood insurance is required on each property if there are multiple residential buildings on the property and within the SFHA (including accessory units).
- Evidence of flood insurance coverage will not be required for a **detached garages, barns, utility sheds, etc.** as long as it is not being used for a residential purpose, even if given value in the transaction.

## Escrow for Flood Insurance

The National Flood Insurance Act requires that the lender hold an escrow account for payment of all flood insurance premiums. **Escrow for flood is required even if borrower does not escrow for taxes and homeowners insurance.**

## Required amount of Flood Insurance Coverage

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.

## Acceptable Policies

- The flood insurance policy must be in the form of the standard policy issued under the NFIP. Policies that meet the NFIP requirements, such as those issued by licensed property and casualty insurance companies that are authorized to participate in the NFIP's "Write Your Own" program, are acceptable.
- Transferred flood policies from seller are acceptable on purchase transactions as long as the policy reflects the name of the borrower(s) at the time of closing and all premiums are paid.
- The flood zone on the borrower's application/policy must match our flood cert.

## Private Flood Insurance Policy Requirements

When private flood insurance coverage is being considered in lieu of an NFIP policy, a private flood insurance policy must meet the following requirements:

1. Private flood insurance policy that reflects a private placement flood insurance endorsement with the following language or substantially similar language is required:

*Important Notice to Mortgagees: To assure compliance with Federal Mandatory Purchase of Flood Insurance laws please note the PRIVATE PLACEMENT FLOOD INSURANCE ENDORSEMENT contained under "Endorsements Section" of this certificate which states: "It is understood and agreed that, where required, this insurance shall be fully compliant with Federal Law, as regards Private Placement Insurance, applicable to the National Flood Insurance Program." Or*

*Contain the following policy statement: "This policy meets the definition of private flood insurance contained in 42 U.S.C. 4012a(b)(7) and the corresponding regulation."*

2. 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 non-residential 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;
3. Provides Flood Insurance coverage that is at least as broad as the coverage provided under a standard NFIP policy for the particular type of property, including when considering exclusions and conditions offered by the insurer.
4. Includes deductibles that are no higher than the maximum and includes similar non-applicability provisions, as under a policy issued by NFIP.
5. Includes a requirement for the insurer to provide written notice 45 before cancellation or non-renewal of Flood Coverage to the borrower and mortgagee
6. Includes information about the availability of Flood Insurance Coverage under the NFIP.
7. Includes a provision requiring the borrower to file a suit no later than one year after date of written denial for all or part of claim.
8. Contains cancellation provisions that are as restrictive as the provisions contained in a standard NFIP policy.

## Deductible Requirements

The following table describes the maximum deductible allowed for an NFIP or a private flood insurance policy.

- 1-4 Unit Properties - Deductibles for both NFIP and Private Policies cannot exceed the maximum deductible amount currently offered by NFIP for one- to four-unit properties insured under an NFIP Dwelling Form.
- Condo Projects - The deductible must not exceed the maximum deductible amount currently offered by NFIP for condo projects insured by an RCBAP. This deductible requirement applies to all condo projects, regardless of the percentage of commercial space.
- PUDs - The deductible on individual attached or detached PUD units must not exceed the maximum deductible amount currently offered by NFIP for one- to four-unit properties insured under an NFIP Dwelling Form.

## FHA Eligibility Requirements for New Construction in SFHAs

If any portion of the dwelling, related structures or equipment essential to the value of the Property and subject to flood damage is located within an SFHA, the Property is not eligible for FHA mortgage insurance **unless** the following is provided:

- A final LOMA or LOMR from FEMA that removes the property from the SFHA; or
- A FEMA NFIP Elevation Certificate (FEMA Form 086-0-33). The Elevation Certificate must document that the lowest floor including the basement of the residential building, and all related improvements/equipment essential to the value of the Property, is built at or above the 100-year flood elevation in compliance with the NFIP criteria; and
- Flood Insurance is obtained.

## FHA Eligibility for Manufactured Housing in SFHAs

The finished grade level beneath the Manufactured Home must be at or above the 100-year return frequency flood elevation. If any portion of the dwelling, related Structures, or equipment essential to the Property Value and subject to flood damage for both new and existing manufactured Homes is located within an SFHA, the Property is not eligible for FHA mortgage insurance unless:

- FEMA issued LOMA or LOMR that removes the Property from the SFHA; or
- Obtains a FEMA NFIP Elevation Certificate (FEMA Form 086-0-33 showing that the finished grade beneath the Manufactured Home is at or above the 100-year return frequency flood elevation; and
- Ensures that Flood Insurance is obtained.

## FHA Restrictions on Property Locations within Coastal Barrier Resources System

In accordance with the Coastal Barrier Resources Act, a Property is not eligible for FHA mortgage insurance.



## Condominium Project Requirements

The HOA must maintain Residential Condominium Building Associated Flood Policy (RCBAP) or equivalent private flood insurance coverage for a condo building consisting of attached units located within an SFHA. **The only building that must be verified is the subject unit's building.**

The master flood insurance policy maintained by the HOA must cover the subject unit's entire building; and all of the common elements and property, including machinery and equipment that are part of the building. The coverage amount for the building must be at least equal to the lesser of:

- 80% of the replacement cost value (1), or
- The maximum coverage amount available from NFIP per unit (2).
  - » If the master flood insurance policy meets the minimum coverage requirement of 80% of the replacement cost value, but the per unit coverage amount does not meet the requirement for loans secured by one- to four-unit properties, as described in Requirements for One- to Four-Unit Properties, the unit owner must maintain a supplemental policy for the difference.
  - » If the commercial space of an attached condo is over 25%, coverage provided by the General Property Form (or equivalent coverage) is insufficient. A private flood insurance policy, or a private flood insurance policy in conjunction with a General Property Form policy (or equivalent coverage) must be maintained by the HOA to equate to coverage requirements for projects eligible for an RCBAP.

Evidence of a master flood insurance policy is not required, provided the unit owner maintains an individual flood dwelling policy that meets the coverage requirements of this Guide for the following loans or project types:

- Units in a 2-4 unit project, and
- Detached condo properties.

## Flood Insurance Policy Term

- Purchase Transactions – the policy must:
  - » Be written for a 12-month term, and
  - » Be in effect as of loan disbursement date, and
  - » Extend and be paid for minimum 12 months from the date of closing.
- Refinance Transactions – new or existing policy is acceptable, provided:
  - » The new or existing policy was written for a 12-month term,\* and
  - » Existing coverage extends a minimum of 60 calendar days beyond the loan closing date. If the policy will expire within 60 calendar days, a 30-day binder or evidence of renewal for one-year (12-month) term is required.

# Flood Insurance Requirements



## Flood Insurance Policy Term

- A Flood insurance declarations page, certificate of insurance or insurance binder is required for all loans.
- The full name of all borrowers and title holders must be included in the policy.
- MFM will allow the Flood insurance premium to be paid at closing. An invoice for the full 12 month premium is required and will be included on the final CD.

## Mortgagee Clause

*If MFM Servicing or loan will be sold servicing released:*

Member First Mortgage, LLC

ISAOA/ATIMA

PO Box 3216

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*If Credit Union Servicing:*

Mortgagee Clause will be in the name of the name of the Credit Union. See list of Credit Unions who service their own loans and appropriate Mortgagee clause for each.