

# Compliance Guide

2016

**Flood Insurance Compliance Policy**

**Towne Mortgage Company**

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### **Introduction**

Before making a secured loan, Towne Mortgage Company (“Towne”) requires a determination as to whether a structure is located in a special flood hazard area (SFHA- see page 7, “Flood Zone Codes”, for further assistance). It is Towne’s policy to comply with all applicable rules, regulations, and laws with respect to the Flood Disaster Protection Act and the National Flood Insurance Reform Act. The flood insurance process is used ensure that the property is insured with flood insurance when in a flood zone.

### **Flood Hazard Area Determination**

Towne requires a guaranteed “life of loan” flood certificate report from a qualified third party. If Towne makes, increases, renews or extends a loan secured by a residential property which is located or to be located in a SFHA, in which flood insurance is available under the National Flood Insurance Program (NFIP), Towne requires full compliance with the flood rules- including force placement, if necessary.

- A. If a property is located in a SFHA and insurance under the National Flood Insurance Program is not available, then the property is not eligible for purchase.
- B. If the subject property is new or proposed construction and any part of the improvements are located in a SFHA, the property is not eligible for purchase.
- C. If the subject property is existing construction and any part of the improvements are located in a SFHA, the property is eligible as long as adequate flood insurance is obtained.
- D. If the subject property is a condominium unit, the Towne requires documentation that the Homeowners Association (HOA) maintains adequate flood insurance

If the flood maps indicate the property is located in a SFHA and there is a dispute, the Towne requires a final Letter of Map Amendment (LOMA) or a final Letter of Map Revision (LOMR) from FEMA that removes the property from the SFHA.

### **Policy Requirements**

For Flood insurance ONLY, Towne may accept an application rather than a policy/dec page.

Towne accepts private flood insurance policies that meet the following requirements:

- Insurance company must meet licensure/approval requirements
- Coverage must be at least as broad as NFIP
- The policy must include 45-day cancellation/nonrenewal notice, information about NFIP coverage, mortgage interest clause similar to FEMA's Standard Flood Insurance Policy (SFIP), 1-year legal recourse Clause, and cancellation provisions as restrictive as SFIP.

#### ➤ **The Amount of Insurance**

Minimum coverage is the LESSOR of 100% of the Insurable Value of Improvements as determined by the amount of insurance listed on the hazard policy (includes master hazard for condos) for dwelling coverage; OR the NFIP maximum for the particular type of building.

The maximum insurance available on NFIP is the "Insurable value" or the maximum available (\$250,000 for 1-4 unit residential properties). This maximum available also applies, per unit, to condominium and PUD projects.

#### ➤ **Deductibles**

- The minimum deductibles available on NFIP range between \$1,000 and \$2,000.
- The maximum deductible on NFIP is \$10,000.00.

Towne's maximum is \$5,000 on Conventional and \$1000 on Gov't Insured Loans (FHA, VA, USDA) OR the maximum allowed by NFIP as follows:

##### a. Full risk Policy

- i. If building coverage does not exceed \$100,000, then minimum deductible is \$1000; however for coverage in excess of \$100,000, the minimum is \$1,250.

##### b. Pre-Firm Subsidized Policy

- i. If building coverage does not exceed \$100,000, then minimum deductible is \$1500; however for coverage in excess of \$100,000, the minimum is \$2,000.

### ➤ **Detached Buildings**

Towne does not require Flood on any structure that (1) is part of a residential property, (2) is detached from the primary residential structure, and (3) does not serve as a residence.

Examples of when a detached structure does serve as a residence:

- The borrower indicates the structure will be used as a residence;
- The structure has a bathroom, kitchen, and sleeping facilities;
- The structure is traditionally used as a residence (guest house)

Examples of when a detached structure does NOT serve as a residence:

- The structure is a greenhouse;
- The structure is a horse barn;
- The structure is a tool shed

If detached property is used as a residence and its value is over \$5,000, it will require separate coverage. Value will be determined by the cost approach section of the appraisal if it is clearly defined; otherwise the flood insurance must establish the insurable value of the structure. If neither can be documented, then we may rely on the hazard policy to determine the insurable value of the structure.

### **Escrow**

Towne requires the escrow of all flood insurance policy premiums for all loans that *require* Flood Insurance, regardless of whether escrow is *waivable* for taxes and other forms of insurance. If the required flood policy is made, increased, renewed or extended, then escrow is required. If escrows are required for other insurance premiums and taxes, escrow is also required for flood insurance.

The option to escrow must be offered and made available to borrowers with outstanding designated loans as of January 1, 2016. The offer must be made by **June 30, 2016**.

The option does not apply to loans already escrowing or loans that qualify for an exception.

### **Forced Placed Insurance**

Towne requires a 45-day notice to a borrower upon making the determination that existing coverage has expired or is inadequate. The notice should state that if the borrower does not obtain the insurance within 45 days, Towne will purchase the insurance on behalf of the borrower and may charge the borrower for the cost of premiums and fees to obtain the coverage, which are likely to be more expensive than if the borrower purchases it.

If the borrower fails to obtain flood insurance within 45 days after notification, flood insurance must be lender placed. Towne may charge the borrower for the costs of forced placed insurance coverage beginning on the date which the borrower's previous coverage lapsed or did not provide sufficient coverage.

Within 30 days of receiving confirmation of borrower's adequate coverage, Towne requires:

- Notification to the provider to terminate lender-placed insurance; and
- Refund of all premiums paid by borrower for any period of overlapping coverage

### **TRAINING AND RECORDKEEPING**

All applicable Towne personnel shall be trained on the rules, regulations, functions, and processes of the Flood Requirements' Policy and Procedures. Training should be provided to new hires during orientation, if applicable, based on assigned duties and to all applicable personnel at least on an annual basis. This training will be supplemented by any changes, or additions to any regulation or company policy.

### **FLOOD INSURANCE REQUIREMENTS (Checklist)**

**IMPORTANT:** If the flood maps indicate the property is located in a SFHA and there is a dispute, the lender must obtain:

A final Letter of Map Amendment (LOMA) or a final Letter of Map Revision (LOMR) from FEMA that removes the property from the SFHA

#### 1. **Flood Insurance Requirements**

\_\_\_\_\_ **Acceptable Flood Insurance Policies:**

- Flood insurance should be under a standard policy issued under NFIP (National Flood Insurance Program)
- A SFIP (Standard Flood Insurance Policy) policy written by one of the approved Write Your Own property and casualty insurance companies. Company lists can be found at: [https://www.fema.gov/wyo\\_company](https://www.fema.gov/wyo_company)
- A private insurance policy based on the following requirements:
  - Insurance company must meet licensure requirements
  - Coverage must be at least as broad as NFIP, evidenced by a letter from the insurance company stating that the coverage is “at least as broad” as the coverage of an NFIP policy.
  - The policy must include 45-day cancellation/nonrenewal notice, information about NFIP coverage, mortgage interest clause similar to FEMA’s Standard Flood Insurance Policy (SFIP), 1-year legal recourse Clause, and cancellation provisions as restrictive as SFIP.

\_\_\_\_\_ **Dwelling Coverage:**

Minimum coverage is the LESSOR of: 100% of the Insurable Value of Improvements as determined by the amount of insurance listed on the hazard policy (includes master hazard for condos) for dwelling coverage; OR the NFIP maximum for the particular type of building

- 1) Single Family 1-4 Unit = \$250,000
- 2) Attached Condos and PUDs with master insurance policies (\$250k multiplied by number of units in the building)

\_\_\_\_\_ **Outbuildings:**

Flood insurance is not required on any structure that (1) is part of a residential property, (2) is detached from the primary residential structure, ***and*** (3) does not serve as a residence.

\_\_\_\_\_ (Y/N) Has the borrower indicated that the structure will be used as a Residence; does the structure have bathroom, kitchen, and sleeping facilities; or is the structure traditionally used as a residence (e.g., guest house)?

- i. If the answer is yes, for any of the above questions, flood insurance is necessary on the detached piece of property.

If detached property is used as a residence and its value is over \$5,000, it will require separate coverage.

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OR

\_\_\_\_\_(Y/N) Is the structure traditionally used for some purpose other than a residence (e.g., green house, horse barn, tool shed)?

- i. If the answer is yes to the above question, flood insurance is not required on the detached portion of the property.

### \_\_\_\_\_**Deductible**

Maximum is \$5,000 on Conventional and \$1000 on Gov't Insured Loans (FHA, VA, USDA) \*\*\* or the maximum allowed by NFIP (\$10,000) as follows:

- a. Full risk Policy
  - i. If building coverage does not exceed \$100,000, then minimum deductible is \$1000; however for coverage in excess of \$100,000, the minimum is \$1,250.
- b. Pre-Firm Subsidized Policy
  - i. If building coverage does not exceed \$100,000, then minimum deductible is \$1500; however for coverage in excess of \$100,000, the minimum is \$2,000.

### \_\_\_\_\_**Flood Zone**

Must be identified on policy (must match Flood Cert)

### \_\_\_\_\_**Other Requirements**

- \_\_\_\_\_ Borrower name is correctly reflected
- \_\_\_\_\_ Property address matches USPS, Appraisal and System
- \_\_\_\_\_ Policy number is shown
- \_\_\_\_\_ Correct Loan Number is shown
- \_\_\_\_\_ Correct Mortgage Clause
- \_\_\_\_\_ Effective date is closing date (can be a few days prior)
- \_\_\_\_\_ Expiration date – 1 year policy paid needed (refinances need 60 days coverage at closing)
- \_\_\_\_\_ Premium – does not exceed amount used to qualify borrower
- \_\_\_\_\_ Paid receipt (evidence of policy being paid is also needed for refinances)
- \_\_\_\_\_ For Flood Insurance ONLY- Can have the application rather than policy/dec page



## **Flood Zone Codes**

<b>Code</b>	<b>Description</b>
A	Area of special flood hazard without water surface elevations determined.
AE	Area of special flood hazard with water surface elevations determined.
AH	Areas of special flood hazards having shallow water depths.
AO	Area of special flood hazards having shallow water depths and/or unpredictable flow paths between 1 and 3 feet.
A1 - A30	Area of special flood hazard with water surface elevations determined.
A99	Area of special flood hazard where enough progress has been made on a protective system, such as dikes, dams, and levees, to consider it complete for insurance rating purposes.
B	Area of moderate flood hazards.
C	Area of minimal hazards.
D NON - no flood zone	Area of undetermined but possible, flood hazards.
X	Area of moderate flood hazards.
V	Area of special flood hazards without water surface elevations determined, and with velocity, that is inundated by tidal floods (coastal high hazard area).
VE	Area of special flood hazards, with water surface elevations determined and with velocity, that is inundated by tidal floods (coastal high hazard area).
VO	Area of special flood hazards having shallow water depths and/or unpredictable flow paths between 1 and 3 feet and with velocity.
V1 - V30	Area of special flood hazards, with water surface elevations determined and with velocity, that is inundated by tidal floods (coastal high hazard area).