

FLOOD INSURANCE PROCEDURES

THE REGULATIONS:

The Flood Disaster Protection Act of 1973 states that a property financed by conventional loans, or any federal or quasi - federal entities such as FNMA or GNMA (for our purposes, any loans sold on the secondary market) must be covered by National Flood Insurance Program (NFIP) flood insurance if the property is located in an area of special flood hazard as designated on community maps issued by the Federal Emergency Management Agency (FEMA). These maps are termed 'Flood Hazard Boundary Maps' or 'Flood Insurance Rate Maps', depending upon the current level of community participation in the NFIP. Federal Disaster Relief is available only in communities that participate in the NFIP.

WHEN IS FLOOD INSURANCE REQUIRED:

Flood insurance is required if the following conditions are present:

1. A Flood Hazard Boundary Map (FHBM) or a Flood Insurance Rate Map (FIRM) has been published for the community in which the property is located,
2. Information is available which suggests the possibility of potential flood hazard on the property in question and
3. The community in which the property is located participates in the NFIP. **SPECIAL FLOOD HAZARD AREAS ARE:**

Zones A, AO, AH, AE, AI-30, and A99

Zones V, VO, VF-, and V1-30

Flood insurance is not mandatory in zones B, C, D, and X but is recommended for properties in a mapped B zone. The X designation as a consolidation of Zones B and C. (REA 196 3/92)

The flood specialist should be contacted as soon as possible to do a lot-parcel check on all MCC's and MCRV's to allow for plenty of time to check on the new construction. The loan processor will then be notified if the new subdivision appears to be in a flood hazard area. A copy of clearance can then be put in each subsequent loan file.

Underwriters or the flood specialist have the final responsibility on flood hazard designations. The requirement may not be waived unless the property has received a LOMA (Letter of Map Amendment) or a LOMR (Letter of Map Revision); letters from city or county agencies are not sufficient to waive a flood hazard designation. A copy of the LOMA or LOMR must be sent to the flood specialist to confirm the LOMA/LOMR information. At that time, only the VP of underwriting or the flood specialist (not the appraiser) may consider waiving the flood insurance requirement.

If flood insurance is required, the loan processor must calculate the amount of flood insurance required based on the lesser of the replacement value of the improvement or the loan amount, excluding the value of the land. The following, for example, are not covered by flood insurance: roads, swimming pools, driveways, and pole barns.



WHICH FLOOD NOTICE SHOULD BE GIVEN AND HOW IS IT DELIVERED?

A screen has been designed to indicate the flood designation (10-08) before loan documents are drawn and this will require the loan officer or loan processor to request the disclosure letter (REA 126 - REV. 3/92) "Notice to Borrowers") if flood insurance is required, or (REA 196 - 3/92 "Notice to Borrowers") if flood insurance is not required but recommended.

REA 126 must be signed by the borrower(s) and a copy placed in the loan file.

REA 196 must be given or mailed to the borrower(s); no signature block is provided. A file copy is not required.

The correct notice must be delivered at least' 10 days before closing (at the time of commitment for brokered loans

When flood insurance is required you can close the loan with the flood insurance application and a paid receipt.

Flood insurance remains in effect for the term of the loan. Should a borrower cancel his flood insurance after the first year of coverage; the Hazard Insurance department will initiate impound procedures, and force place coverage.

Insurance is not available on a property in a flood-prone community if the community is not participating in the NFIP; Secondary Markets does not make loans in non-participatory areas if the property is in a Zone A class or Zone V class area.

MoneyCorp must notify the borrower as soon as possible after an application has been approved, and not less than ten (10) days before closing; for the buy centers, at time of loan commitment. Failure to advise borrowers of mapped flood hazards or to require the prescribed NFIP flood insurance may cause PRLC to lose its government insured lending approval.

WHICH LOANS HAVE TO BE REVIEWED?

All loans

