

# Insurance Policies and Requirements

## Hazard Insurance Requirements

### Dwelling Coverage Requirement

The lesser of:

- 100% of the insurable value of the improvements, as established by the property insurer; or
- the unpaid principal balance of the mortgage, as long as it at least equals the minimum amount of 80% of the insurable value of the improvements.

If the insurance coverage is substantially less than the mortgage loan amount, evidence of insurer's estimate of replacement cost should be requested from the insurer.

RD Only:

Should be equal to:

- Replacement cost coverage in an amount equal to the insured value of improvements; or
- The unpaid principal balance

### Maximum Deductible

5% of the face amount of the policy

RD Only:

The deductible should not exceed the greater of:

- \$1000
- 1 % of the policy coverage
- The minimum deductible offered by the borrower's chosen insurance carrier

	<b>Policy Term and Renewal Requirements</b>
	<p>Purchases:</p> <ul style="list-style-type: none"> <li>• Policy period must be in place on day of closing and no more than 30 days before closing</li> <li>• Initial policy term must be at least 1 year</li> </ul> <p>Refinances</p> <ul style="list-style-type: none"> <li>• Policy must be current and not expiring within 60 days of closing</li> <li>• Must provide renewal declaration page if expiring within 60 days</li> <li>• Must collect for following year premium if due within 60 days</li> </ul>
	<b>Escrow Requirements</b>
<b>Flood Coverage</b>	<p>Government Loans: Escrow is required.  Conventional loans: LTVs &gt; 80% escrow is required. Except where specified by state law.  Escrow Waiver Pricing Adjustment: .25</p> <p>Additional optional coverages such as separate umbrella and liability insurance may not be escrowed with the mortgage payment.</p>
	<b>Coverage Requirement</b>
	<p>Flood coverage is required anytime any part of the residential structure lies within a Special Flood Hazard area as determined by a flood certificate.</p> <p>A flood insurance declarations page <i>may not be used</i> to verify that private insurance coverage is equivalent to NFIP coverage; the full policy must be reviewed.</p> <p>The minimum amount of flood insurance required for most first mortgages secured by a 1-4 unit residential property:</p> <ul style="list-style-type: none"> <li>• 100% of the replacement cost of the insurable value of the improvements</li> <li>• the maximum insurance available from the NFIP: \$250,000 per dwelling</li> <li>• the unpaid principal balance of the mortgage</li> </ul>
	<b>Eligible Insurers</b>
	<p>Flood policies issued by the National Flood Insurance Program and are acceptable on all programs. Flood policies that are issued by private insurers are only acceptable on conventional financing. Homes that are located in a SFHA but are not in a participating community where flood insurance may be obtained, are not eligible for financing.</p>

	<p><b>Maximum Deductible</b></p> <p>Deductibles for flood insurance policies must meet NFIP requirements for the type of improvements insured, unless state law allows for a higher maximum deductible amount. This requirement applies to both NFIP and private policies</p> <p><b>RD Only:</b> The deductible should not the exceed the greater of:</p> <ul style="list-style-type: none"> <li>• \$1000</li> <li>• 1 % of the policy coverage</li> </ul>
	<p><b>Escrow Requirements</b></p> <p>Flood insurance must be escrowed if the property lies in a SFHA. No escrow waiver is available.</p> <p>If a property does not lie in a flood zone and optional flood insurance is obtained that insurance may not be escrowed.</p>
	<p><b>Change in Flood Zone</b></p> <p>If a property’s flood determination has changed, a Letter of Map Amendment (LOMA) or a new Elevation Certificate may be obtained and sent to the flood service provider for certificate amendment. If it is determined the property is no longer in the flood plain, the certificate will be updated and flood insurance will not be required.</p>
<p><b>Condominium/Project Coverage</b></p>	<p><b>Master Insurance Policy: Dwelling/Building Coverage:</b></p> <p>Project insurance is reviewed and approved by the FCM Condo Desk at the time of project approval. The following requirements are outlined for general information purposes.</p> <p>Condominium Master insurance policies must have one of the following coverages:</p> <ul style="list-style-type: none"> <li>• <b>“Single Entity” policy:</b> Only allowed if the Master Deed allows this type of insurance to be obtained by the project. The policy must cover all of the general and limited common elements that are normally included in coverage. These include fixtures, building service equipment, and common personal property and supplies belonging to the HOA. The policy also must cover fixtures, equipment, and replacement of improvements and betterments that have been made inside the individual unit being financed. The amount of coverage must be sufficient to restore the condo unit to its condition prior to a loss claim event</li> <li>• <b>“All-In” (sometimes known as an “all-inclusive” or “Walls-In”) policy:</b> The policy must cover all of the</li> </ul>

general and limited common elements that are normally included in coverage. These include fixtures, building service equipment, and common personal property and supplies belonging to the HOA. The policy also must cover fixtures, equipment, and replacement of improvements and betterments that have been made inside the individual unit being financed.

- **“Bare Walls” policy:** This policy typically provides no coverage for the unit interior, which includes fixtures, equipment, and replacement of interior improvements and betterments

**Coverage Requirements:**

Insurance must cover 100% of the insurable replacement cost of the project improvements, including the individual units in the project. An insurance policy that includes any of the following coverage, either in the policy language or in a specific endorsement to the policy, is acceptable:

- Guaranteed Replacement Cost—the insurer agrees to replace the insurable property regardless of the cost,
- Extended Replacement Cost—the insurer agrees to pay more than the property’s insurable replacement cost, or
- Replacement Cost—the insurer agrees to pay up to 100% of the property’s insurable replacement cost.
- Co-insurance may be acceptable as long as it is determined that the coverage is equal to 100% of the replacement cost

**Required Endorsements:**

- Inflation Guard Endorsement
- Building Ordinance or Law Endorsement
- Boiler and Machinery/Equipment Breakdown Endorsement

**Maximum Deductible:**

5% of Dwelling Coverage

**Flood Insurance:**

**Coverage Requirements:**

Flood insurance coverage is required when a mortgage loan is secured by a unit in an attached condo complex and any part of the building improvements are in an SFHA. The HOA must maintain a master policy of flood insurance. The premiums must be paid as a common expense, unless indicated below.

A master flood insurance policy maintained by the project, must cover the subject unit’s

- Entire building including each of the individual units in the building; and
- All of the common elements and property, including machinery and equipment that are part of the building

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

- Units in a 2-4-unit project
- Detached condos

**Coverage Requirements:**

The coverage amount for the building must be at least equal to the lesser of

- 80% of the replacement cost, or
- The maximum insurance available from NFIP per unit (which is currently \$250,000)

If the master flood insurance policy meets the minimum coverage requirement of 80% replacement cost, but the per unit coverage amount does not meet the requirement for mortgage loans secured by one-to-four unit properties, as described above, the unit owner must maintain a supplemental policy for the difference.

If the commercial space of an attached condo is over 25%, coverage by the General Property Form is insufficient. A private policy will need to be maintained by the HOA or a private policy in conjunction with a General Property Form policy to equate to coverage requirements for projects eligible for Residential Condominium Building Association Policy.

The Contents coverage must equal the lesser of 100% of the insurable value of all contents owned in common by the association members for the maximum amount available through the NFIP.

**Liability Insurance:**

Liability insurance in the amount of \$1 Million is required if the condominium project is reviewed under the full review method. The policy must include a severability of interest or separation of insureds clause.

**Fidelity Insurance:**

For projects consisting of more than 20 units and reviewed under the full review method, Fidelity insurance is required. The amount of coverage must cover the maximum amount of funds that are in custody under the HOA or management company at any one time. Reductions to these requirements may be made when certain conditions exist; the requirement becomes 3x the monthly HOA dues for all units in the project. The

management agent/company and all HOA representatives should be covered under the policy.

### HO-6 Policies

The HO-6 insurance policy requirements vary based on the type of HOA master or blanket insurance policy. In each case, the amount of coverage is determined by the insurer and no specific percentage of appraised value is required.

**Master Policy is a “Single Entity”.** If the unit interior improvements are not included under the terms of this policy type, the borrower is required to have an HO-6 policy with coverage, as determined by the insurer, which is sufficient to repair the condo unit to its condition prior to a loss claim event.

**Master Policy is an “All-In” (sometimes known as an “all-inclusive” or “Walls-In”) policy:** If the unit interior improvements are not included under the terms of this policy type, the borrower is required to have an HO-6 policy with coverage, as determined by the insurer, which is sufficient to repair the condo unit to its condition prior to a loss claim event.

**Master Policy is a “Bare Walls” policy:** This policy typically provides no coverage for the unit interior, which includes fixtures, equipment, and replacement of interior improvements and betterments; the borrower must obtain an individual HO-6 policy that provides coverage sufficient to repair the condo unit to its condition prior to a loss claim event, as determined by the insurer. In general, this type of policy should have a larger percentage of dwelling value than any other type of HO-6 policy.

### Escrow Requirements

Master Insurance Policy: N/A

HO-6 Policy: The HO-6 policy is not required to be escrowed at any LTV, however, when waived, an LLPA escrow waiver fee does apply.

