
Lending Guide

Chapter 16 | Insurance

Cardinal requires that all properties secured by a mortgage have insurance that covers all perils associated with the property location; coverage must be in force at the time of closing. The following requirements are applicable to all product types for one to four-unit properties that are not a condominium or Co-op,

For Condominium, PUD, and Co-op insurance requirements, refer to the applicable Condo or Co-op section of the related Lending Guide Chapter.

Cardinal Overlays to agency guidelines are highlighted in our signature *Riptide* color, and are also listed in the corresponding [Retail](#) or [TPO](#) Product Overlay Matrix available on the HUB.

Homeowner's Insurance

Documentation Standards

The policy/binder should include the following:

- Name of the Insurance Company
- Insurance Agency Policy number
- Insurance Provider's address and telephone number
- Agent's signature (only required when evidence of insurance provided is a binder)
- Insured Property Address
- Effective dates of policy (effective date must be the same or before the date of funding date)
- Premium amount
- Dwelling coverage
- Deductible amount
- All borrower(s) names; must be shown as primary insured
 - Fannie Mae
 - The policy must show all title-only borrowers as named insured
 - Freddie Mac
 - Title-only borrowers may, but are not required, to be shown on the policy

The following provisions are unacceptable:

- Policies that limit or exclude from coverage (in whole or in part) any of the required perils noted in [Coverage Requirements](#), a separate policy or endorsement must be obtained that provides adequate coverage for the limited or excluded peril. The separate policy may come from an insurance pool established by a state to cover the limitations or exclusions.
- Policies that contain a coinsurance clause
 - If the policy has a coinsurance clause, an Agreed Amount Endorsement or selection of the Agreed Value Option (which waives the requirement for coinsurance) must be present on the policy to evidence that the 100% insurable replacement cost requirement has been met. If an Agreed Amount/Agreed Value provision is used, the Agreed Amount must be no less than the estimated replacement cost.
 - The above guidance related to coinsurance is not applicable to Fannie Mae or Freddie Mac transactions

Types of Homeowner's Insurance

HO-3 Single Family Residence Coverage

The HO-3 policy is a combination of an "open perils" policy and a "named perils" policy. It's considered a combination because it will cover the Dwelling (the actual structure of the home as well as other structures on the property) on an open perils basis and personal property on a named peril basis only. This policy will also cover Other structures, Personal Liability, and Medical payments to others.

Acceptable Coverage

Coverage A is the only permitted coverage type to determine sufficient dwelling coverage to meet transaction requirements.

- Coverage A - Damage to House (used to determine sufficient coverage)
 - Also known as main structure coverage, dwelling coverage is the part of your home insurance that pays to repair or rebuild your home's physical structure (think: walls, floors, roof, windows, support beams, and foundation) when a covered incident damages it.

Other Coverage Types

An HO-3 policy may include a number of additional coverage types when applicable, however, they are not acceptable to be included in the total calculation to meet dwelling coverage requirements.

- Coverage B - Other Structures
 - Covers damage to other structures or buildings, such as a detached garage, work shed, or fencing.
- Coverage C - Personal Property
 - Covers damage to, or loss of personal property. Personal property includes household contents and other personal belongings used, owned, or worn by you and your family.
- Coverage D - Additional Living Expense
 - Covers additional living expenses when incurred. This means that the policy covers the necessary living expenses up to the stated limit, incurred by the insured to continue, as nearly as possible, the normal standard of living when the house cannot be occupied due to a covered loss.
- Coverage E - Comprehensive Personal Liability
 - Covers personal liability. This coverage protects you against claims arising from accidents to others on property that you own or rent. With a few exceptions, such as auto or boating accidents, it is an all-purpose liability policy that follows you wherever you go.
- Coverage F - Medical Expense
 - Covers medical expenses. Coverage is limited to an amount per person and per accident for injuries occurring on your premises to persons other than an insured, or elsewhere, if caused by you, a member of your family, or your pets. An important feature of this coverage is that payment is made regardless of legal liability.

Insurance Company Ratings

For Conventional loans (Fannie Mae and Freddie Mac), the insurance company furnishing an insurance policy must have an acceptable rating by A.M. Best Company, Standard and Poor's, Inc. or Demontech, or Kroll Bond Rating Agency.

Acceptable Agency Ratings

| Rating Agency | Agency | All Property Types |
|---------------------------|-------------|---|
| A.M. Best Company | Fannie Mae | Either a “B” or better Financial Strength Rating in Best’s Insurance Reports, or an “A” or better Financial Strength Rating and a Financial Size Category of “VIII” or greater in Best’s Insurance Reports Non-US Edition |
| | Freddie Mac | Rating of” B+ |
| Demotech, Inc. | Fannie Mae | Rating of “A” or better rating in Demotech’s Hazard Insurance Financial Stability Ratings |
| | Freddie Mac | |
| Standard and Poor’s, Inc. | Fannie Mae | Rating of “BBB” or better Insurer Financial Strength Rating in Standard & Poor’s Ratings Direct Insurance Service |
| | Freddie Mac | |
| Kroll Bond Rating Agency | Fannie Mae | Rating of “BBB” or better rating in Kroll Bond Rating Agencies Insurance Financial Strength Rating (IFSR) |
| | Freddie Mac | |

In addition to the above, the following types of property insurance policies are also eligible:

- A state insurance pool created by statutory authority to provide insurance for geographic areas or insurance lines which suffer from lack of voluntary market availability, such as a property insurance plan, or a FairAccess to Insurance Requirements (FAIR) plan.
- Policies obtained through state or territory insurance plans, such as the Hawaii Property Insurance Association (HPIA), Florida’s Citizens Property Insurance Corporation, or other state-mandated windstorm and beach erosion insurance pools.

Hazard insurance policies underwritten by Lloyd’s of London or Hawaiian Insurance and Guaranty Company may be accepted even though they are not rated by one of the acceptable agencies. Coverage through state insurance pools is also acceptable if there is no other coverage available.

Ineligible Insurance Providers

The following are examples of ineligible or unacceptable insurance providers:

-
- Mutual Aid Organizations
 - Defined as a cooperative group where members contribute to a shared fund and agree to support each other in times of need, such as after property damage or medicate events. These are typically non-profit and operate outside of regulated insurance frameworks.
 - Religious or Church-based Risk Sharing Ministry
 - Defined as an entity affiliated with a religious or faith-based community that facilitates shared financial assistance among members. Unlike standard insurance providers, these ministries do not guarantee payment and often require members to be part of a specific community or faith.
 - Unregulated Alternatives to Insurance
 - While these organizations may function similarly to insurance in concept, they are generally not licensed or regulated as insurance companies. They often lack formal claims processes, reinsurance, or statutory reserves, and rely on voluntary contributions or emergency fundraising in the event of large-scale losses.

Homeowners Insurance Coverage Requirements

Property insurance must protect against loss or damage from fire and other perils covered by the standard extended coverage endorsement. The coverage must provide for claims to be settled on a replacement cost basis.

Refer to [Ineligible Property Insurance Policies](#) for limitations on acceptable policies.

Property insurance policies for one- to four-unit properties should be written on a "Special" coverage form, or equivalent. At a minimum, the coverage must include the following perils:

- Fire
- Lightning
- Windstorm (including named storms designated by the U.S. National Weather Service or the National Oceanic and Atmospheric Administration by a name or number)
 - A named storm is a tropical cyclone, hurricane, or tropical storm
 - Insurance policies may include a named storm deductible, which applies when damage is caused by a named storm. Refer to the [Deductible](#) section for requirements.

- Hail
- Smoke
- Aircraft
- Vehicles
- Explosion
- Riot or civil commotion

If any of the preceding perils are **excluded** from the primary insurance policy, coverage of the excluded peril(s) must be provided through a secondary insurance policy.

For a first mortgage secured by a property on which an individually held insurance policy is maintained, coverage must be equal to the **lesser** of the following and must affirm the insurance provides for coverage in the event of a loss:

- 100% of the insurable value of the improvements, as of the current property insurance policy effective date, as established by the property insurer and verified utilizing **Option 1** below
- The unpaid principal balance of the mortgage*, provided it equals no less than 80% of the replacement cost value of the improvements as outlined in **Option 2** below. If it does not, then coverage that does provide the minimum required amount must be obtained.
- To determine sufficient coverage, please use the [Hazard Insurance Coverage Calculator](#).

**The unpaid balance of the mortgage and the combined outstanding principal balance of all loans secured by the improved real estate concurrently originated. For subordinate liens that are HELOCs, the total line amount is included in the calculation. Subordinated liens paid to or retained that are non-Cardinal subordinate liens are not included in the calculation.*

Ineligible Property Insurance Policies

Property insurance policies that provide for claims to be settled on an Actual Cash Value or **Stated Value Coverage (also termed as State Value or Agreed Value)** are not acceptable.

In addition to the above limitation on policies that provide for claims to be settled on an Actual Cash Value or **Stated Value**, Cardinal will not permit policies that limit, depreciate, reduce or otherwise settle losses at anything other than a replacement cost basis.

There are no exceptions for roofs, regardless of age.

Verifying Replacement Cost Coverage

Replacement Cost Value

Definition

Replacement Cost Value is the cost to replace property or structure with the same kind of material and construction without deduction for depreciation. To ensure the required coverage is validated, Cardinal will rely on the insurance provider or other acceptable source documents to determine the RCV (Replacement Cost Value). Hazard insurance agents determine RCV (Replacement Cost Value) through reasonable methods, such as automated valuation tools or cost approach appraisal. Based on RCV determination, the insurance provider works with the consumer to ensure the hazard coverage amount adequately covers the structure.

When an insurance policy includes one of the acceptable endorsements outlined in **Option 1** below, no further verification of dwelling coverage is required. If the policy does not indicate guaranteed replacement cost or one of the endorsements noted below for replacement cost of the insurable improvements, and the insurance verification form affirming guaranteed replacement coverage cannot be verified, additional analysis is required to validate the required dwelling coverage as outlined in **Option 2** of the table below.

| Option 1: Verification of Replacement Cost Endorsement | |
|--|--|
| An insurance policy that includes one of the following endorsements will ensure full insurable value replacement cost coverage and requires no reconciliation of dwelling coverage amount. | |
| Acceptable Policy Endorsements | Endorsement Definition |
| Guaranteed Replacement Cost Endorsement | This endorsement pays the full cost of rebuilding the property back to its previous size and specifications even if this amount exceeds the policy limits. Guaranteed replacement cost isn't available in all states (e.g., North Carolina offers "Enhanced" Replacement Cost Coverage) |
| Replacement Cost Endorsement | The insurer agrees to pay up to 100% of the property's insurable replacement cost. |

| | |
|--|---|
| | Replacement cost is provided up to the limit shown on the declarations page. |
| Insurance Verification of Replacement Cost Coverage | When a homeowner’s insurance policy does not reflect replacement cost coverage language, replacement cost coverage can be verified verbally or through an email from the insurance agent, or the insurance agent can provide a Cost Estimator to indicate the calculated insurable value. |

Option 2: Verification of Replacement Cost Value

If the policy does not include an acceptable endorsement listed in Option 1 and the Insurance Agent is unwilling to complete the Verification of Replacement Cost Coverage, additional analysis is required to determine acceptable dwelling coverage.

| Valuation Documentation | Definition of Documentation |
|--|--|
| Insurance Provider Replacement Cost Value Documentation | <p>A Replacement Cost Estimator, Construction Cost Calculation, or other internal document or form provided by any licensed insurance provider outlining how the coverage amount was determined is acceptable to establish the RCV.</p> <p>In areas of the country where replacement cost estimators cannot or will not be provided, some other verification must be provided from the insurance agent stating that the policy was written based upon replacement costs, or a different form of verification must be provided as noted above.</p> <p>If replacement cost documentation is older than 1 year, the insurance provider must affirm this is the most recent replacement cost value documentation. It is acceptable for the replacement cost value documentation to be older than one year if the provider indicates it is the most recent version available.</p> |
| Appraisal Report | The RCV can be ascertained by using the appraisal report. The appraisal RCV can be identified in the Cost Approach to Value section of the appraisal. If the Cost Approach to Value section is not completed, or if the Appraiser indicates the appraisal is not to be |

| | |
|--|--|
| | used for insurance purposes, the RCV from the appraisal cannot be utilized. |
| Residential Component Technology Express | RCT (Residential Component Technology) Express is a web-based, hosted system which can be used to calculate a home’s reconstruction cost based on the risk-specific features of the individual property. This service may be utilized if Cardinal cannot obtain the property replacement cost from the insurance agent. Refer to the Handling Valuations in Residential Component Technology Express document for details. |
| In order to determine sufficient coverage using Option 2 , the Hazard Insurance Coverage Calculator must be used. | |

Coverage Amount Endorsements

When a homeowner’s insurance policy does not reflect the required endorsement language, it is acceptable for a member of the loan team to obtain written confirmation by using a template, form, or email which will affirm the evidence of insurance includes a Guaranteed Replacement Cost Endorsement or Replacement Cost Endorsement. The written confirmation should include:

- Date of call or email
- Insurance company name
- Agent Name
- Phone number or email address of insurance company/agency contact
- Policy number
- The policy contains Guaranteed Replacement Cost Endorsement or Replacement Cost Endorsement

Handwritten changes to a hazard insurance policy (including replacement cost verbiage) are not acceptable.

Steps to Calculate the Amount of Required Property Insurance Coverage | Option 2

| Step | Description |
|------|--|
| 1 | Compare the replacement cost value of the improvements to the loan amount. |
| 1A | If the replacement cost value of the improvements is less than the loan amount, the replacement cost value is the amount of coverage required. |
| 1B | If the loan amount is less than the replacement cost value of the improvements, go to Step 2. |
| 2 | Calculate 80% of the replacement cost value of the improvements. |
| 2A | If the result of this calculation is equal to or less than the loan amount, the loan amount is the amount of coverage required. |
| 2B | If the result of this calculation is greater than the loan amount, this calculated figure is the amount of coverage required. |

Note: When calculating the required amount of property insurance coverage, the loan amount must be used at origination. References to UPB are used during the servicing of the loan.

Examples

| Category | Property A | Property B | Property C |
|-----------------------------------|------------|------------|------------|
| Replacement Cost Value | \$90,000 | \$100,000 | \$100,000 |
| Loan Amount | \$95,000 | \$90,000 | \$75,000 |
| 80% of the Replacement Cost Value | - | \$80,000 | \$80,000 |
| Required Coverage | \$90,000 | \$90,000 | \$80,000 |
| Calculation Method Used | Step 1A | Step 2A | Step 2B |

Acceptable Term of Policy

The Term of the Homeowner’s Insurance must adhere to the following:

- Policies must be written for a term of one (1) year, or provide for continuous coverage until canceled.
- Coverage must be current at the time of closing and through loan delivery.

- Refinance Transactions
 - If the expiration date is less than 30 days prior to the subject Note Date, a renewal policy must be provided.

Deductible

The maximum deductible for insurance for each transaction type is outlined below.

| Deductible Requirements | | |
|---|--|---|
| Loan Type | Type of Coverage | Maximum Deductible ¹ |
| <ul style="list-style-type: none"> ● Conventional² ● FHA ● VA ● USDA | <ul style="list-style-type: none"> ● Homeowner’s Insurance, including all required perils | 5% of Policy Coverage Amount ^{3,4} |

¹State specific variances may dictate the minimum deductible.

²For condominium units in projects with a blanket insurance policy that cover both the individual units and the common elements, the maximum deductible amount related to the individual unit should be no greater than 5% of the replacement cost of the unit.

³The maximum allowable deductible for all one- to four-unit properties applies to all required perils, including when a property insurance policy includes multiple deductibles. See below for calculations when a policy has different deductibles.

⁴USDA: When using a high deductible, lenders must be mindful of the applicant’s repayment ability and ensure that chosen deductibles are reasonable for the applicant and will not cause undue hardship on the borrower

Maximum Allowable Deductible with Multiple Deductibles

To calculate how the maximum allowable deductible (5% of the Policy Coverage Amount) applies when a policy has different deductibles, follow these steps:

- Determine the Policy Coverage Amount
 - Example: Let’s assume the Policy Coverage Amount is \$500,000
- Calculate the Maximum Allowable Deductible
 - The maximum allowable deductible is 5% of the Policy Coverage Amount
 - $\$500,000 \times 5\% = \$25,000$
 - This means the total deductible, regardless of peril type, cannot exceed \$25,000

- Compare the Actual Deductibles
 - Example: If a Named Storm Deductible is 8% = \$500,000 x 8% = \$40,000
 - This exceeds the \$25,000 maximum allowable deductible, so it must be reduced to \$25,000
 - In the example, if the other perils deductible is 3%, the deductible is \$15,000
 - This is below the \$25,000 maximum, so no adjustment is needed.

Loss Payee/Mortgagee Clause

Cardinal Financial accepts Evidence of Insurance for refinance transactions regardless of the mortgagee clause. The mortgagee clause for a **refinance transaction** may be blank due to a property being owned free and clear currently, it may have the existing lenders mortgagee clause or it may have Cardinals standard mortgagee clause. Our interim servicing procedures and policy ensure that at the time of effective funding we will update the mortgagee clause through our subservicing procedures making the mortgagee during the refinance process unimportant.

For **purchase transactions**, Cardinal will require our standard mortgage clause as prescribed within the system of record for the investor and loan program.

Cardinal Financial Company, Limited Partnership
 ISAOA ATIMA
 P. O. Box 29411
 Phoenix, AZ 85038-9411

Lender Placed Insurance

Cardinal will place insurance (at borrower’s expense) on any collateral where the borrower’s act of omission or commission nullifies the required insurance coverage.

Non-Impounded Loan Requirements

| Scenario | If the bill is available and due: | If the bill is not available... |
|----------|-----------------------------------|---------------------------------|
|----------|-----------------------------------|---------------------------------|

| | | |
|--|---|--|
| Insurance installment due prior to the first payment date. | Insurance installment(s) must be paid at closing and evidenced on the Closing Disclosure or evidence of payment in full to the insurance agent. | Insurance installment(s) must be paid at closing and evidenced on the Closing Disclosure. The amount is calculated based on the prior year's premium. |
| Insurance installment is due on or within 30 days of the first payment date. | Insurance installment(s) must be paid at closing and evidenced on the Closing Disclosure or evidence of payment in full to the insurance agent. | Insurance installment is not required to be paid at the time of settlement, however, the borrower's acknowledgment to pay the insurance signed at closing will be included within closing documents. |
| Insurance installment due 30 days after 1st payment due date | The borrower is responsible for ensuring insurance installments are paid when due. | |

Acceptable Evidence of Payment of Hazard Insurance

- Provide a new hazard policy and a paid receipt for the first year's premium to evidence proof of insurance on purchase transactions, or
- Provide a complete application for hazard insurance signed by the borrower and insurance agent. The application must provide sufficient information to be able to determine the adequacy of coverage and appropriate dates of coverage. The application must be accompanied by a paid receipt for the first year's premium
 - In instances where the premium is paid at closing, a *Closing Disclosure* that evidences the first year's premium payment is an acceptable form of a paid receipt

Flood Insurance

Originally drafted in 1968, The National Flood Insurance Act ("the Act") is a program created by the Congress of the United States enabling property owners in participating communities to purchase protection from the government against losses from flooding. It is designed to provide an insurance

alternative to disaster assistance to meet the escalating costs of repairing damage to buildings caused by floods in the designated SFHA's, which had become uneconomical for the private insurance industry.

In general, as part of the Act, regulated lending institutions (including Cardinal) are directed to not make any loan secured by real estate or mobile homes which are located in an area that has been identified as an SFHA, and in which flood insurance is available.

Certain portions of the Act are applicable to Cardinal because Cardinal is a “lender”, defined under the Act as a “regulated lending institution”. Further, a “regulated lending institution” means “any bank savings and loan association, credit union, farm credit bank, Federal land bank association, production credit association, or similar institution subject to the supervision of a Federal entity for lending regulation.”

Specific portions of the Act, with citations and further requirements, are attached to this Policy as **EXHIBIT A**.

Policy and Standards

Cardinal will take the following steps to comply with the Act:

- Cardinal will comply with all of the laws affecting its business operations found in the National Flood Insurance Act of 1968, as outlined in the requirements section and **EXHIBIT A** of this policy;
- As the requirements section and **EXHIBIT A** provide, Cardinal shall have operations in place to determine which loans originated by Cardinal must have flood insurance attached in an amount at least equal to the outstanding principal balance of the loan or the maximum limit of coverage made available with respect to the particular type of property, whichever is less;
- Disclosures concerning flood insurance should be sent to the borrower in the form described in 42 U.S.C. § 1012a(b)(6)(A);
- Cardinal is responsible for making sure that the disclosures are delivered and in the correct form, Cardinal operations function shall take measures to confirm that they are providing all of the disclosures when necessary;

-
- Loans serviced by Cardinal shall be monitored by Cardinal's subservicer, if flood insurance becomes necessary on a property during the life of a loan. This could include situations where Cardinal discovers that insurance should have been procured on the home but was not, or a situation where a property was not previously designated in a Special Hazard Flood Area but has subsequently been designated as such;
 - If flood insurance is not available in certain flood hazard areas because the community does not participate in the National Flood Insurance Program (NFIP), the property is not acceptable and the loan cannot proceed to close;
 - Cardinal may charge a reasonable fee to the borrower to determine whether the property is or will be located in a Special Flood Hazard Area; and
 - All loans that require flood insurance will maintain escrow accounts for such insurance.

Program and Strategy

Flood insurance is required if all or part of the property improvements are located in a Special Flood Hazard Area (SFHA). Flood insurance is required on properties that are located within the following SFHA Zones: A, AO, AH, A1-30, AE, A99, AR, AR/A, AR/AE, AR/A1-30, AR/AH, AR/AO, V, VO, V1-30, VE.

Effective on all applications taken on or after April 9, 2012, if the property is located in a Special Flood Hazard Area, a copy of the Notice of Special Flood Hazards (NSFH) must be provided to the borrower at least one day prior to the loan closing. The flood certification is pulled during the initial submission of the file into Operations. Once the information about the property is available in the system of record, a flood certification will be produced which will automatically indicate if the property is in one of the designated SFHA's discussed above. At this point, the flood certification and required disclosures will be provided to the borrower.

If flood insurance is not available in certain flood hazard areas because the community does not participate in the National Flood Insurance Program (NFIP), the property is not acceptable and the loan cannot proceed to closing.

Flood insurance is required if any part of the principal structure is located within an SFHA. Detached buildings such as stand-alone garages, sheds, or greenhouses are not typically considered part of the

principal structure, although flood insurance will be required for them if they are considered part of the security for the mortgage.

All flood insurance policies must include the items listed below:

- All borrower(s) names; must be shown as primary insured
 - Fannie Mae
 - The policy must show all title-only borrowers as named insured
 - Freddie Mac
 - Title-only borrowers may, but are not required, to be shown on the policy
- Insured property address
- Cardinal Mortgagee clause must be listed in its entirety
- Cardinal loan number
- Policy number
- Policy effective date must be equal to or prior to the funding date
- The policy expiration date cannot expire prior to the funding date
- The annual premium amount must be reflected on the insurance policy
- The policy must be written for at least a 1-year term

A Declaration Page or Copy of the Flood Insurance Application may be used in lieu of a flood insurance policy. If a Flood Insurance Application is provided, a paid receipt, for the first year's premium or evidence of payment on the closing disclosure must also be provided. If applicable, the Flood Insurance Application may be signed by the borrower at closing.

The notice documents outlined below in the regulation section are the disclosures sent to the borrower, if applicable. These documents satisfy the provisions of the National Flood Insurance Act, and should always be used in cases where notice must be sent to the borrower.

Roles and Responsibilities

If a loan processor or loan originator ("LO") has knowledge that a property is a designated SFHA when a borrower completes their application, the LO or processor should begin the process of notifying the borrower that insurance must be procured on the property. Once the information about the property is input into the system of record, a flood certification will be produced which will automatically indicate if

the property is in one of the designated SFHA's discussed above. At this point, the flood certification and required disclosures will be provided to the borrower.

Flood Insurance is a condition that must be cleared "Prior to Loan Documents" (PTD). The condition will be cleared once underwriting receives a copy of the insurance. Subsequently, the closing department will confirm that if the loan file contains a stamped flood certification, that it also contains a copy of the insurance in the form discussed above.

Individual Units

Under the National Flood Insurance Reform Act, Cardinal will not purchase loans secured by improved real estate that is located or will be located in an area that has been identified as a "Special Flood Hazard Area" (SFHA) unless the property is covered by flood insurance. An in-force flood insurance policy is required at the time of closing.

Condominiums, co-ops, and PUD projects have additional flood insurance requirements.

Refer to the Condominium Project Approval section of the guide or the Co-op section of the guide for information on Condominium, PUD, and Co-operative insurance requirements.

Certificates of Flood Insurance and Binders do NOT meet Cardinal, NFIP or FEMA requirements on any property type as the proof of flood coverage.

Unless otherwise stated, these guidelines apply to all Conforming, FHA, VA, USDA, and Non-Conforming products. If there is a conflict between guidelines on a Non-Agency product, the more restrictive of the investor or Cardinal's requirements apply.

Unmapped Properties

Cardinal originates a mortgage on a property that has not been mapped by FEMA and the flood zone on the flood determination is "None" without any map designation. Insurance from the National Flood Insurance Program (NFIP) is not available for these properties at origination but may be required later if FEMA maps the property to a Special Flood Hazard Area (SFHA).

Coastal Barrier Resource System (CBRS)

Refer to the [Required Insurance Escrow](#) section for flood escrow requirements.

Due to restrictions imposed by Government Agencies, properties located within a CBRA are not eligible for FHA, VA, or USDA financing.

When a property is located in a Coastal Barrier Resource System (CBRS) or Otherwise Protected Area (OPA) use the following table for eligibility for agency and Non-conforming loans:

| Regulations Prevent Rebuilding of Property Improvements as Determined by the Appraisal | Located in an SFHA | Property Eligibility |
|--|--------------------|---|
| No | Yes | Fannie Mae Freddie Mac Non-Agency |
| | No | Freddie Mac Non-Agency |
| Yes | Not Eligible | |

Non-Participating Communities

- If the property is located in a non-participating community and it is not mapped, Cardinal will finance the property.
- If the property is in a flood zone, is located in a non-participating community, and is mapped, Cardinal will not finance the property.
- If the property is not in a flood zone, is located in a non-participating community, and is mapped, Cardinal will finance the property.

| Property in Non-Participating Community | Property is in Flood Zone | Property is Mapped | Eligible for Financing |
|---|---------------------------|--------------------|------------------------|
| Yes | N/A | No | Yes |
| | Yes | Yes | No |
| | No | Yes | Yes |

National Flood Insurance Program (NFIP) Coverage Amounts

The National Flood Insurance Program determines the amount of flood insurance coverage that a borrower may purchase. During the initial phase of a community's participation in the National Flood Insurance Program (NFIP), only limited amounts of insurance are available.

| Federal flood insurance availability | Property Location | Maximum Coverage |
|--------------------------------------|---------------------------------------|------------------|
| Regular | Any state | \$250,000 |
| Emergency Program of NFIP | Hawaii or Alaska | \$50,000 |
| | Any state other than Hawaii or Alaska | \$35,000 |
| Non-Participating | Any state | Not applicable |

Flood Certification Requirements for Non-Participating Communities

Cardinal requires loans on which properties located in a non-participating community have a Flood Certificate (FEMA Form 086-0-32) noting the following information in the loan file:

- If the property is located in a non-participating community and is not mapped, then Flood Certification must show the zone designated as “None” and a map entry field as blank.

-
- If the property is located in a non-participating community and is mapped, and is not in a flood zone, then Flood Certification must show the Flood Zone for the subject and the map entry field completed.

SFHA's Identified

The Flood Insurance Rate Maps (FIRM) identify the Special Flood Hazard Areas (SFHA) as beginning with an "A" or "V." The flood zone reflected on the flood determination must align with zones recognized by FEMA.

Federal law mandates Flood Insurance; it cannot be waived under any circumstances.

Required Insurance Escrow

Cardinal requires a flood insurance escrow for subject properties located in SFHAs.

Flood Insurance Coverage Requirements

For a Residential Single-Family Dwelling (1-4 unit properties), Planned Unit Development (PUD), ground lease community units, detached individual condo unit, or a condo unit where the association is not responsible for flood insurance, the amount of flood insurance must at least equal the lowest of the following based on product type:

- Conventional (Fannie Mae and Freddie Mac) and FHA
 - Unpaid Mortgage Balance Plus Secondary Liens. The unpaid balance of the mortgage and the combined outstanding principal balance of all loans secured by the improved real estate concurrently originated. For subordinate liens that are HELOCs, the total line amount is included in the calculation. Subordinated liens paid to or retained that are non-Cardinal subordinate liens are not included in the calculation.
 - Replacement Cost Value (Insurable Value). 100% replacement cost of the insurable building and other supporting structures (the cost to replace with the same kind of material and construction without deduction for depreciation); *or*

-
- Maximum Limit Available Under NFIP. The maximum amount of coverage currently sold under the NFIP insurance program for the type of improvements insured. Please see the section on NFIP limits.
 - VA and USDA
 - Unpaid Mortgage Balance Plus Secondary Liens. The unpaid balance of the mortgage and the combined outstanding principal balance of all loans secured by the improved real estate concurrently originated. For subordinate liens that are HELOCs, the total line amount is included in the calculation. Subordinated liens paid to or retained that are non-Cardinal subordinate liens are not included in the calculation; or
 - Maximum Limit Available Under NFIP. The maximum amount of coverage currently sold under the NFIP insurance program for the type of improvements insured. Please see the section on NFIP limits.

The [Flood Insurance Coverage Calculator](#) must be used to determine sufficient coverage is obtained.

Replacement Cost Value

Replacement Cost Value (RCV) is the cost to replace property or a structure with the same kind of material and construction without deduction for depreciation. Insurance companies and agents determine RCV through reasonable methods, such as automated valuation tools or cost approach appraisal.

Replacement Cost Value (RCV) must be verified from one of the following documents:

- Flood insurance policy,
- Replacement Cost Estimator, Construction Cost Calculation, or other internal document or form provided by any licensed insurance provider outlining how the coverage amount was determined,
 - RCT (Residential Component Technology) Express is a web-based, hosted system which can be used to calculate a home's reconstruction cost based on the risk-specific features of the individual property. This service may be utilized if Cardinal cannot obtain the

property replacement cost from the insurance agent. Refer to the [Handling Valuations in Residential Component Technology Express](#) document for details.

- Appraisal that includes a cost approach value,
- Hazard insurance company RCV, only if the hazard insurance company and flood insurance company are the same.

Maximum Deductible Amount

Flood insurance deductibles are determined by each agency, refer to the following table for maximum deductible amounts:

| Agency | Maximum Deductible Amount |
|--------------|--|
| Conventional | <ul style="list-style-type: none"> ● Not to exceed the NFIP Maximum of \$10,000 |
| FHA | <ul style="list-style-type: none"> ● Not to exceed the NFIP Maximum of \$10,000 |
| VA | <ul style="list-style-type: none"> ● Not to exceed the NFIP Maximum of \$10,000 |
| USDA | <ul style="list-style-type: none"> ● Not to exceed the NFIP Maximum of \$10,000 <p>When using a high deductible, lenders must be mindful of the applicant’s repayment ability and ensure that chosen deductibles are reasonable for the applicant and will not cause undue hardship on the borrower</p> |

Term and Renewal

The Term of the Flood Insurance must adhere to the following:

- Policies must be written for a term of one (1) year, or provide for continuous coverage until canceled.
- Coverage must be current at the time of closing and through loan delivery.
- Refinance Transactions
 - If the expiration date is less than 30 days prior to the subject Note Date, a renewal policy must be provided.

National Flood Insurance Program Lapse

Fannie Mae

Fannie Mae has provided the following guidance in case of a NFIP lapse.

The NFIP may lapse due to a shutdown of the federal government or if Congress does not renew the NFIP's authorization to issue new policies, increase coverage on existing policies, or issue renewal policies. For the duration of such a lapse, a lender may sell a loan to Fannie Mae where flood insurance is otherwise required without an active flood insurance policy provided the requirements per the Fannie Mae [Selling Guide section B7-3-06](#) are met for Requirements During a National Flood Insurance Program Lapse.

Private Flood Insurance

Regulated lending institutions are required to accept a private flood insurance policy that meets the definition of "private flood insurance", as defined in the Biggert-Waters Act. To assist in the evaluation of whether a flood insurance policy meets the definition of "private flood insurance," a streamlined compliance aid is available, allowing Cardinal to accept a policy without further review see Flood Insurance Policies below.

Private flood insurance policies must meet specified FEMA criteria to be acceptable as equivalent to NFIP policies and compliant with the mandatory flood insurance purchase rule. The Act also requires disclosure regarding the availability of private flood insurance as indicated below.

Under the Act, lenders must disclose specific information relative to the availability of private flood insurance policies. The Act does not specify, but Lenders may choose to include this notice within the SFHN or as a separate disclosure. The information disclosed must:

- Explain that flood insurance that provides the same level of coverage as an NFIP policy may also be available from private insurers, and
- Encourage borrowers to compare the following information between an NFIP and a private insurance policy and address any questions with their agent:

-
- Flood insurance coverage
 - Deductibles
 - Exclusions
 - Conditions
 - Premiums

FHA, VA, USDA Private Flood Insurance Requirements

FHA

Effective with Case Numbers assigned on or after December 21, 2022, FHA will begin accepting Private Flood Insurance Policies. Refer to [ML 2022-18](#) and HUD HB 4000.1 for guidance.

VA / USDA

Refer to [VA Chapter 12 Minimum Property Requirements](#) and [USDA HB 1-3555 Chapter 12 Property and Appraisal Requirements](#) for additional guidance related to Private Flood Insurance.

Flood Insurance Policies

If a borrower chooses Private Flood Insurance, then Cardinal will require a copy of the Flood Insurance Policy and all endorsements, as applicable. A list of acceptable private flood insurers may be found here: <https://www.floodsmart.gov/flood-insurance/providers>.

Cardinal must review the policy for one or more of the following:

- Compliance Aid for Mandatory Acceptance
- Discretionary Acceptance
- Mandatory Acceptance

Cardinal will review the Compliance Aid for Mandatory Acceptance as the priority. If the applicable statement is not found, the second step will be the Discretionary Acceptance and the last option is the Mandatory Acceptance review.

If the policy does not include the Compliance Aid for Mandatory Acceptance, review for either the Discretionary or Mandatory Acceptance criteria. If the policy is first reviewed under the Mandatory Acceptance criteria and fails that review, the policy must be reviewed under the Discretionary Acceptance criteria. If the policy is first reviewed under the Discretionary Acceptance criteria and fails that review, Cardinal must validate the policy does not meet the Mandatory Acceptance criteria before rejecting.

If the policy does not meet the Mandatory Acceptance requirement or the Discretionary Acceptance criteria, evidence of Cardinal's process to validate the policy must be documented and retained in the loan file. Include why the policy did not meet the Mandatory Acceptance requirement or the Discretionary Acceptance criteria.

Note: Policies that include a Compliance Aid Statement must also meet all Agency requirements, including but not limited to a review of the full policy.

Compliance Aid for Mandatory Acceptance

- A policy may meet the definition of “private flood insurance,” without further review if the following statement is included within the policy or as an endorsement to the policy:
 - *“This policy meets the definition of private flood insurance contained in 42 U.S.C. 4012a(b)(7) and the corresponding regulation.”*
- The statement included on the proof of insurance must strictly conform to the language above. In addition to confirming the Compliance Aid for Mandatory Acceptance, Cardinal must:
 - Validate all Flood insurance policy standards are met
 - Document the process used to validate the policy and store, or image the evidence with the loan file documents

FHA

In the absence of the Compliance Aid within the policy, FHA will permit a Mortgagee to review the policy to determine if it meets FHA requirements, or rely on the insurance agent or carrier to separately provide the PFI Policy Compliance Aid language.

Discretionary Acceptance

- To accept private flood insurance under the Discretionary Acceptance criteria, Cardinal must:
 - Confirm the policy is issued by an insurer that is licensed, admitted, or otherwise approved to do business where the property is located; or for non-residential commercial property, is issued by a surplus lines insurer recognized or not disapproved where the property is located
 - Confirm the issuer provides adequate notice of cancellation to the mortgagor and mortgagee to ensure timely placement of lender-placed insurance
 - Buildings covered / coverage amount. – Review payment per occurrence or per loss vs. aggregate limit
- In addition to the criteria listed above, Cardinal must also:
 - Validate all Flood insurance policy standards are met
 - Document the process used to validate the policy and retain store, or image the evidence with the loan file documents

Mandatory Acceptance

- To comply with the Mandatory Acceptance requirement, Cardinal must review the policy for the following: 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 is to be insured is located, by the insurance regulator of that State or jurisdiction or, in the case of a policy of difference in conditions, multiple perils, all risk, or other blanket coverage insuring nonresidential commercial property, is recognized, or not disapproved, as a surplus lines insurer by the State insurance regulator of the State or jurisdiction where the property to be insured is located;
- Provides flood insurance coverage that is at least as broad as the coverage provided under a standard flood insurance policy issued under the NFIP (SFIP), including when considering deductibles, exclusions, and conditions offered by the insurer;

-
- Includes a requirement for the insurer to give written notice 45 days before cancellation or non-renewal of flood insurance coverage to the insured and the regulated lending institution, or a servicer acting on the institution's behalf;
 - Includes information about the availability of flood insurance coverage under the NFIP;
 - Includes a mortgage interest clause similar to the clause contained in an SFIP;
 - Includes a provision requiring an insured to file suit not later than one year after the date of a written denial for all or part of a claim under a policy; and
 - Contains cancellation provisions that are as restrictive as the provisions contained in an SFIP.

Ineligible Insurance Providers

The following are examples of ineligible or unacceptable insurance providers:

- Mutual Aid Organizations
 - Defined as a cooperative group where members contribute to a shared fund and agree to support each other in times of need, such as after property damage or medicate events. These are typically non-profit and operate outside of regulated insurance frameworks.
- Religious or Church-based Risk Sharing Ministry
 - Defined as an entity affiliated with a religious or faith-based community that facilitates shared financial assistance among members. Unlike standard insurance providers, these ministries do not guarantee payment and often require members to be part of a specific community or faith.
- Unregulated Alternatives to Insurance
 - While these organizations may function similarly to insurance in concept, they are generally not licensed or regulated as insurance companies. They often lack formal claims processes, reinsurance, or statutory reserves, and rely on voluntary contributions or emergency fundraising in the event of large-scale losses.

Multiple or Detached Structure Requirements

The following flood requirements for detached structures apply to single-family residences.

A Structure is defined as any building permanently affixed to the land and having:

- Two or more outside rigid walls
- Fully secured roof

A Residential Structure is defined as a structure (regardless of value) that has any two of the following three characteristics:

- Bathroom facilities
- Food preparation area
- Sleeping quarters

Requirements – Agency and Non-Agency

The following table provides requirements for flood insurance for structures that are separate from the principal dwelling:

| Structure | Flood Insurance Requirement |
|-----------------|---|
| Residential | Flood insurance is required for all detached residential structures located in an SFHA, regardless of value |
| Detached Garage | Flood insurance is not required when the garage is covered under the flood policy for the residence |

| | |
|--|--|
| <p>Non-Residential 1-4 unit structures</p> | <p>Flood insurance is required for detached non-residential structures located in an SFHA having values that exceed the greater of \$25,000 or 10% of the total value of the property (buildings and land) based on the following (in order):</p> <ul style="list-style-type: none"> ● Value of specific structure as stated in the appraisal ● Value/coverage for detached non-residential structure as reflected in hazard policy <p>If the above values are not available, the value will be considered to be nominal and flood insurance i</p> |
|--|--|

Requirements - FHA and VA

All detached structures including detached garages require flood insurance when located in a SFHA.

Borrower Disclosure

Cardinal issues the following required government disclosure, for Agency and Non-Agency transactions to all borrowers whose detached, the non-residential structure does not require a separate flood insurance policy:

Although you may not be required to maintain flood insurance on all structures, you may still wish to do so, and your mortgage lender may still require you to do so to protect the collateral securing the mortgage. If you choose to not maintain flood insurance on a structure, and it floods, you are responsible for all flood losses relating to that structure.

Requirement when no Appraisal is Required

If no appraisal is required as allowed by loan type or underwriting approval (for example, PIW is used), and the subject property is in an SFHA , one of the following steps must be taken to validate there are no detached/multiple structures on the property:

-
- CoreLogic RealQuest report (or similar vendor product report)
 - Survey
 - Map, such as a printed image from Google Earth or satellite that clearly shows both:
 - Property address
 - Overhead view in which no additional structure appears

Structures Above Base Elevation

If the mortgagor refuses to purchase flood insurance coverage on a property located in a Special Flood Hazard area because the structure is above the Base Flood Elevation (BFE) (i.e., on a knoll or bluff, or elevated on fill), the borrower may request a “Letter of Map Amendment” or “Letter of Map Revision,” from FEMA as appropriate. If FEMA issues the LOMA or LOMR, flood insurance coverage may then be canceled.

For information on how to request a Letter of Map Amendment, call the local Federal Emergency Management Agency for the property location.

Flood Insurance Coverage Requirements

A property with any part of the structure located in a special flood hazard zone must have one of the following documents prior to funding:

- Complete current "in-force" flood insurance policy (or Declarations page), whose content is sufficient to determine adequacy of coverage and appropriate dates of coverage, or
- Complete application for flood insurance signed by the borrower and insurance agent. The application must provide sufficient information to be able to determine adequacy of coverage and appropriate dates of coverage. The application must be accompanied by a paid receipt for the first year’s premium
 - In instances where the premium is paid at closing, a *Closing Disclosure* that evidences the first year’s premium payment is an acceptable form of paid receipt.

-
- Notes:
 - Agent's signature can be electronic
 - If a change is required to an existing flood insurance policy, one of the following is required:
 - Updated flood insurance declarations page reflecting the change, or
 - Copy of the existing flood insurance declarations page, a copy of a change endorsement signed by the agent, and a receipt for proof of payment for increased premium (if applicable) if required.

The Declarations page is a part of the flood policy and is acceptable if it provides all of the following:

- Term of the policy
- Limits of coverage
- Premium amount
 - Follow standard agency guidelines for the inclusion of flood insurance premiums in the housing expense-to-income and debt payment-to-income ratios
- Insurer's name

Coverage must be for at least 12 months of insurance (or according to the terms of a FAIR or state-enforced plan).

Certificates of Flood Insurance and Binders do NOT meet NFIP and FEMA requirements on any property type as proof of flood coverage.

- An ACORD flood insurance binder by itself is not accepted by the majority of our investors. In the case of an ACORD binder, we will need one of the two items below to satisfy the investor conditions for purchase:

-
- Flood application signed by the borrower and the agent (please note, the investor will not accept if not signed by both) and proof of payment. The replacement cost value must be used.
 - Actual flood insurance declarations page and proof of payment with replacement cost value listed.

Cardinal does not offer lender-paid flood insurance. If the policy is based on lender-paid insurance (as evidenced by the name of the lender in the “Insured” section of the policy), the policy will no longer be in effect once the loan closes and is paid off.

Flood Zone Determination

Cardinal relies on CoreLogic (formerly First American Flood Data Services, Inc [FDSI]) as the final authority on the need for Flood Insurance.

Cardinal does not accept borrower certifications, surveys, or appraisals to determine the need for Flood Insurance, as the Surveyor or Appraiser does not indemnify the lender for any loss resulting from inaccurate information.

Cardinal orders the Life-of-Loan determinations through Corelogic.

Life of Loan Flood Monitoring

The Life-of-Loan monitoring will continue throughout the entire Cardinal servicing period and will be transferred to the investor who purchases the loan (if applicable).

- If it is determined at any point that the subject property needs Flood Insurance, the borrower will be notified
- If the Flood Insurance is not placed within the timeframe indicated in the Notification, Chase will obtain the Flood Insurance and charge the Borrower

Flood Determination Date Requirement

The date in the Date of Determination on the Standard Flood Hazard Determination (flood certification) must be no more than 120 days before the Note date for all Freddie Mac and Non-Agency transactions.

Flood Zone Discrepancies

The flood zone code must appear on the flood insurance declarations page or policy. In general, the flood zone code listed on the flood insurance declarations page or policy must match with the Flood Zone code listed on the Flood Determination except in the following situations:

- Exception #1
 - Any A or V zone listed on the Flood Insurance is acceptable if the Flood Determination also lists any A or V zone. A and V zones are all considered high risk by FEMA.
 - Example:
 - If the Flood Determination lists a Zone Code of AH, an acceptable Zone Code listed on the Flood Insurance would be A15. The same scenario would be acceptable if the Flood Determination listed a Zone Code of V and the Zone Code listed on the Flood Insurance was V25. Also, acceptable would be if the Flood Determination listed a Zone Code of AE and the Zone code listed on the Flood Insurance was V3.
 - If this is the case, there is no further need to document the investigation in the file.
- Exception #2
 - A discrepancy may be justified due to a grandfathered rating element. If the zones don't match and the Insurance Company indicates that the flood insurance policy is based on a grandfathered Flood Zone code, the Insurance Company must provide the Grandfathered Code (effective October 1, 2009).
 - If documentation can be obtained confirming the building was constructed before the FIRM date, and/or a flood insurance policy was in effect and remains in effect before the current FIRM date, there has been no new (significant) construction after the initial FIRM

date, a grandfathered Flood Zone Code may be acceptable. All supporting evidence supporting a grandfathered Flood Zone Code must be kept in the loan file.

- If a grandfathered zone can be confirmed as valid after performing the grandfather tests, place all supporting documentation listed above in the file attached to the evidence of insurance. Notate that the zone was grandfathered in.
- Exception #3
 - A discrepancy may be justified due to FEMA Memo W-1405.
 - The memo states "For new policies effective on or after April 1, 2015, properties newly mapped into an SFHA by a revision to the FIRM that became effective on or after March 21, 2014, will be eligible for a preferred risk premium for the first year, after which they will transition to full risk rates through average premium increases of 15 percent but not exceeding 18 percent per policy (excluding the HFIAA surcharge). The full-risk rates may be based on the grandfathered zone of BFE. Beginning at the first renewal, the policies must be rated using the tables established for Property Newly Mapped into the SFHA."
 - Example:
 - If the borrower obtains a Preferred Risk Policy, the flood zone on the policy may list a zone of X but the flood zone on the determination may list a high-risk zone, if the policy was effective on or after April 1, 2015 and the revised FIRM date was effective on or after March 21, 2014.

Third-Party Checkpoint – Flood Zone Discrepancies - Agent's Refusal to Change Policy

If a discrepancy cannot be resolved, the Lender must send the FEMA April 2008 letter along with a cover letter to the Agent advising them of the discrepancy. Verbally advising the agent is not sufficient. Once the Lender has documented their due diligence, including sending of the letter, Cardinal Financial will move forward with accepting the loan.

Flood Zone Determination Disputes

If it is believed that the improvements may not be in a Special Flood Hazard Area (SFHA) (Zone A or V), it is the responsibility of the originating office, lender, or the applicant to work with the outside vendor to obtain a revised flood determination. The outside vendor's determination after the appeal will be a final decision; Underwriting or Credit Managers may not override the decision.

If the issue is whether the flood map was read correctly, the borrower may submit elevation materials (a survey of the property and improvements) in support of a request for a Letter of Map Amendment (LOMA) or Letter of Map Revision (LOMR) to remove the subject property from the SFHA. Issued LOMAs or LOMRs will show up on any future flood zone determinations for that particular property. The borrower must still obtain flood insurance for loan approval to be issued and closing to occur. If a LOMA or LOMR is issued removing the building from the SFHA, the flood insurance may then be discontinued.

Flood Insurance - Grandfather Rule

Properties with “Grandfather” Rule on Flood Policy Zones

Pursuant to the National Flood Insurance Program (NFIP) requirements, Cardinal must ensure that for any property where the flood certificate shows a higher risk flood zone, but the flood insurance policy shows coverage of a lower-moderate risk flood zone, the flood policy/declarations page submitted must show proof that the property was “grandfathered” to allow for the lower-moderate flood risk zone. Per the NFIP Mandatory Purchase of Flood Guidelines (Section B-1, c-2):

“If the flood zone designation differs from the zone designation noted on the flood insurance policy, the lender should resolve it and document reasons.” There may be some legitimate reason for the discrepancy, such as the NFIP “grandfather” rules.

For additional information on the “grandfather” rule, please refer to the NFIP guidelines on the [FEMA](#) website.

Grandfather Rule Requirements

As noted previously, the flood policy/declarations page must clearly state what zone the policy covers (or an endorsement from the insurance agent if it is not listed on the policy/declarations page).

If the flood policy/declarations page lists a lower-moderate risk flood zone, but the flood certificate lists a higher risk flood zone (see the following examples), Cardinal require one of the following:

- Proof of the “grandfather” rule – either a statement on the policy/declarations page itself or an endorsement from the insurance agent stating the “grandfather” rule applies; or
- A corrected flood policy/declarations page from the agent showing the matching higher flood risk zone as listed on the flood certificate; or
- An updated flood certificate showing the property is no longer in a higher flood risk zone (if it was determined the certificate was incorrect)

If the certificate shows the property to be in a higher risk flood zone, the policy shows it to be in a lower-moderate risk flood zone and one of the above is not submitted by the borrower then the transaction cannot be approved.

Examples of higher risk flood zones versus lower risk zones:

- Flood certificate shows the property in flood zone V (highest risk), but the policy/declarations page shows flood zone A (high risk, but lower risk than V).
- The flood certificate shows the property in flood zone A or V (high risk zones), but the policy/declarations page shows flood zone B, C, or X (low risk zones).

Lava Insurance

VA

VA [Local Requirements](#) permit properties in Hawaii located within Lava Zone 1 and Lava Zone 2 for Lending purposes. A Lava Insurance Policy, with coverage for at least the amount of the loan, is required for all properties located within Lava Zone 1 and Lava Zone 2.

EXHIBIT A

**The National Flood Insurance Act of 1968 (Amended by the Flood Disaster Protection Act of 1973),
 42 U.S.C. §§ 4003, 4012a-4013a, 4019, and 12 C.F.R. §22.5-22.6, Including Appendix A to §22.**

| Topic | Citation | Regulation |
|--------------------|-------------------------|---|
| Definitions | 42 U.S.C. § 4003 | <p>(a) As used in this Act, unless the context otherwise requires, the term—</p> <p>(1) “community” means a State or a political subdivision thereof which has zoning and building code jurisdiction over a particular area having special flood hazards;</p> <p>(2) “Federal agency” means any department, agency, corporation, or other entity or instrumentality of the executive branch of the Federal Government, and includes the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation;</p> <p>(3) “financial assistance” means any form of loan, grant, guaranty, insurance, payment, rebate, subsidy, disaster assistance loan or grant, or any other form of direct or indirect Federal assistance, other than general or special revenue sharing or formula grants made to States;</p> <p>(4) “financial assistance for acquisition or construction purposes” means any form of financial assistance which is intended in whole or in part for the acquisition, construction, reconstruction, repair, or improvement of any publicly or privately owned building or mobile home, and for any machinery, equipment, fixtures, and furnishings contained or to be contained therein, and shall include the purchase or subsidization of mortgages or mortgage loans but shall exclude assistance pursuant to the Disaster Relief and Emergency Assistance Act (other than assistance under such Act in connection with a flood);</p> <p>(5) “Federal entity for lending regulation” means the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Comptroller of the Currency, the National Credit Union Administration, and the Farm Credit Administration, and with respect to a particular regulated lending institution means the entity primarily responsible for the supervision of the institution;</p> |

| | | |
|---|---------------------------------|--|
| | | <p>(6) “Administrator” means the Administrator of the Federal Emergency Management Agency;</p> <p>(7) “Federal agency lender” means a Federal agency that makes direct loans secured by improved real estate or a mobile home, to the extent such agency acts in such capacity;</p> <p>(8) the term “improved real estate” means real estate upon which a building is located;</p> <p>(9) “lender” means a regulated lending institution or Federal agency lender;</p> <p>(10) “regulated lending institution” means any bank, savings and loan association, credit union, farm credit bank, Federal land bank association, production credit association, or similar institution subject to the supervision of a Federal entity for lending regulation; and</p> <p>(11) “servicer” means the person responsible for receiving any scheduled periodic payments from a borrower pursuant to the terms of a loan, including amounts for taxes, insurance premiums, and other charges with respect to the property securing the loan, and making the payments of principal and interest and such other payments with respect to the amounts received from the borrower as may be required pursuant to the terms of the loan.</p> <p>(b) The Administrator is authorized to define or redefine, by rules and regulations, any scientific or technical term used in this Act, insofar as such definition is not inconsistent with the purposes of this Act.</p> |
| <p>Requirements for Mortgage Loans</p> | <p>42 U.S.C. § 4012a</p> | <p>(b) Requirement for mortgage loans</p> <p>(1) Regulated lending institutions. Each Federal entity for lending regulation (after consultation and coordination with the Financial Institutions Examination Council established under the Federal Financial Institutions Examination Council Act of 1974) shall by regulation direct regulated lending institutions—</p> <p>(A) not to make, increase, extend, or renew any loan secured by improved real estate or a mobile home located or to be located in an area that has been identified by the Administrator as an area having special flood hazards and in which flood insurance has been made available under the National Flood Insurance Act of 1968, unless the building or mobile home and any personal property securing such loan is covered for the term of the loan by flood insurance in an amount at least equal to the outstanding principal balance of the loan or the maximum limit</p> |

| | |
|--|---|
| | <p>of coverage made available under the Act with respect to the particular type of property, whichever is less; and</p> <p>(B) to accept private flood insurance as satisfaction of the flood insurance coverage requirement under subparagraph (A) if the coverage provided by such private flood insurance meets the requirements for coverage under such subparagraph.</p> <p>(3) Government-sponsored enterprises for housing. The Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation shall implement procedures reasonably designed to ensure that, for any loan that is—</p> <p>(A) secured by improved real estate or a mobile home located in an area that has been identified, at the time of the origination of the loan or at any time during the term of the loan, by the Administrator as an area having special flood hazards and in which flood insurance is available under the National Flood Insurance Act of 1968, and</p> <p>(B) purchased by such entity, the building or mobile home and any personal property securing the loan is covered for the term of the loan by flood insurance in the amount provided in paragraph (1)(A). The Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation shall accept private flood insurance as satisfaction of the flood insurance coverage requirement under paragraph (1)(A) if the flood insurance coverage provided by such private flood insurance meets the requirements for coverage under such paragraph and any requirements established by the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation, respectively, relating to the financial solvency, strength, or claims-paying ability of private insurance companies from which the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation will accept private flood insurance.</p> <p>(4) Applicability</p> <p>(A) Existing coverage. Except as provided in subparagraph (B), paragraph (1) shall apply on September 23, 1994.</p> <p>(B) New coverage. Paragraphs (2) and (3) shall apply only with respect to any loan made, increased, extended, or renewed after the expiration of the 1-year period beginning on September 23, 1994. Paragraph (1) shall apply with respect to any loan made, increased, extended, or renewed by any lender supervised by the Farm Credit Administration only after the expiration of the period under this subparagraph.</p> <p>(6) Notice</p> |
|--|---|

| | |
|--|---|
| | <p>(A) In general. Each lender shall disclose to a borrower that is subject to this subsection that—</p> <ul style="list-style-type: none"> (i) flood insurance is available from private insurance companies that issue standard flood insurance policies on behalf of the national flood insurance program or directly from the national flood insurance program; (ii) flood insurance that provides the same level of coverage as a standard flood insurance policy under the national flood insurance program may be available from a private insurance company that issues policies on behalf of the company; and (iii) the borrower is encouraged to compare the flood insurance coverage, deductibles, exclusions, conditions, and premiums associated with flood insurance policies issued on behalf of the national flood insurance program and policies issued on behalf of private insurance companies and to direct inquiries regarding the availability, cost, and comparisons of flood insurance coverage to an insurance agent. <p>(B) Rule of construction. Nothing in this paragraph shall be construed as affecting or otherwise limiting the authority of a Federal entity for lending regulation to approve any disclosure made by a regulated lending institution for purposes of complying with subparagraph (A).</p> <p>(7) Private flood insurance defined. In this subsection, the term “private flood insurance” means an insurance policy that—</p> <ul style="list-style-type: none"> (A) is issued by an insurance company that is— <ul style="list-style-type: none"> (i) licensed, admitted, or otherwise approved to engage in the business of insurance in the State or jurisdiction in which the insured building is located, by the insurance regulator of that State or jurisdiction; or (ii) in the case of a policy of difference in conditions, multiple perils, all risk, or other blanket coverage insuring nonresidential 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; (B) provides flood insurance coverage which is at least as broad as the coverage provided under a standard flood insurance policy under the national flood insurance program, including when considering deductibles, exclusions, and conditions offered by the insurer; (C) includes— <ul style="list-style-type: none"> (i) a requirement for the insurer to give 45 days’ written notice of cancellation or non-renewal of flood insurance coverage to— <ul style="list-style-type: none"> (l) the insured; and |
|--|---|

| | |
|--|---|
| | <p>(II) the regulated lending institution or Federal agency lender;</p> <p>(ii) information about the availability of flood insurance coverage under the national flood insurance program;</p> <p>(iii) a mortgage interest clause similar to the clause contained in a standard flood insurance policy under the national flood insurance program; and</p> <p>(iv) a provision requiring an insured to file suit not later than 1 year after the date of a written denial of all or part of a claim under the policy; and</p> <p>(D) contains cancellation provisions that are as restrictive as the provisions contained in a standard flood insurance policy under the national flood insurance program.</p> <p>(d) Escrow of flood insurance payments</p> <p>(1) Regulated lending institutions</p> <p>(A) Federal entities responsible for lending regulations</p> <p>Each Federal entity for lending regulation (after consultation and coordination with the Federal Financial Institutions Examination Council) shall, by regulation, direct that all premiums and fees for flood insurance under the National Flood Insurance Act of 1968, for residential improved real estate or a mobile home, shall be paid to the regulated lending institution or servicer for any loan secured by the residential improved real estate or mobile home, with the same frequency as payments on the loan are made, for the duration of the loan. Except as provided in subparagraph (B), upon receipt of any premiums or fees, the regulated lending institution or servicer shall deposit such premiums and fees in an escrow account on behalf of the borrower. Upon receipt of a notice from the Administrator or the provider of the flood insurance that insurance premiums are due, the premiums deposited in the escrow account shall be paid to the provider of the flood insurance.</p> <p>(B) Limitation. Except as may be required under applicable State law, a Federal entity for lending regulation may not direct or require a regulated lending institution to deposit premiums or fees for flood insurance under the National Flood Insurance Act of 1968 in an escrow account on behalf of a borrower under subparagraph (A)</p> <p>(i) if—</p> <p>(I) the regulated lending institution has total assets of less than \$1,000,000,000; and</p> <p>(II) on or before July 6, 2012, the regulated lending institution—</p> <p>(aa) in the case of a loan secured by residential improved real estate or a mobile home, was not required under Federal or</p> |
|--|---|

| | |
|--|---|
| | <p>State law to deposit taxes, insurance premiums, fees, or any other charges in an escrow account for the entire term of the loan; and</p> <p>(bb) did not have a policy of consistently and uniformly requiring the deposit of taxes, insurance premiums, fees, or any other charges in an escrow account for loans secured by residential improved real estate or a mobile home.</p> <p>(ii) in the case of a loan that--</p> <p>(I) is in a junior or subordinate position to a senior lien secured by the same residential improved real estate or mobile home for which flood insurance is being provided at the time of the origination of the loan;</p> <p>(II) is secured by residential improved real estate or a mobile home that is part of a condominium, cooperative, or other project development, if the residential improved real estate or mobile home is covered by a flood insurance policy that--</p> <p>(aa) meets the requirements that the regulated lending institution is required to enforce under subsection (b)(1);</p> <p>(bb) is provided by the condominium association, cooperative, homeowners association, or other applicable group; and</p> <p>(cc) the premium for which is paid by the condominium association, cooperative, homeowners association, or other applicable group as a common expense;</p> <p>(III) is secured by residential improved real estate or a mobile home that is used as collateral for a business purpose;</p> <p>(IV) is a home equity line of credit;</p> <p>(V) is a nonperforming loan; or</p> <p>(VI) has a term of not longer than 12 months.</p> <p>(3) Applicability of RESPA. Escrow accounts established pursuant to this subsection shall be subject to the provisions of section 10 of the Real Estate Settlement Procedures Act of 1974.</p> <p>(4) Definition. For purposes of this subsection, the term “residential improved real estate” means improved real estate for which the improvement is a residential building.</p> <p>(5) Applicability. This subsection shall apply only with respect to any loan made, increased, extended, or renewed after the expiration of the 1-year period beginning on September 23, 1994.</p> <p>(e) Placement of flood insurance by lender</p> <p>(1) Notification to borrower of lack of coverage</p> <p>If, at the time of origination or at any time during the term of a loan secured by improved real estate or by a mobile home</p> |
|--|---|

| | | |
|--|--|--|
| | | <p>located in an area that has been identified by the Administrator (at the time of the origination of the loan or at any time during the term of the loan) as an area having special flood hazards and in which flood insurance is available under the National Flood Insurance Act of 1968, the lender or servicer for the loan determines that the building or mobile home and any personal property securing the loan is not covered by flood insurance or is covered by such insurance in an amount less than the amount required for the property pursuant to paragraph (1), (2), or (3) of subsection (b) of this section, the lender or servicer shall notify the borrower under the loan that the borrower should obtain, at the borrower's expense, an amount of flood insurance for the building or mobile home and such personal property that is not less than the amount under subsection (b)(1) of this section, for the term of the loan.</p> <p>(2) Purchase of coverage on behalf of the borrower. If the borrower fails to purchase such flood insurance within 45 days after notification under paragraph (1), the lender or servicer for the loan shall purchase the insurance on behalf of the borrower and may charge the borrower for the cost of premiums and fees incurred by the lender or servicer for the loan in purchasing the insurance, including premiums or fees incurred for coverage beginning on the date on which flood insurance coverage lapsed or did not provide a sufficient coverage amount.</p> <p>(3) Termination of force-placed insurance. Within 30 days of receipt by the lender or servicer of a confirmation of a borrower's existing flood insurance coverage, the lender or servicer shall—</p> <p>(A) terminate any insurance purchased by the lender or servicer under paragraph (2); and</p> <p>(B) refund to the borrower all premiums paid by the borrower for any insurance purchased by the lender or servicer under paragraph (2) during any period during which the borrower's flood insurance coverage and the insurance coverage purchased by the lender or servicer were each in effect, and any related fees charged to the borrower with respect to the insurance purchased by the lender or servicer during such period.</p> <p>(4) Sufficiency of demonstration. For purposes of confirming a borrower's existing flood insurance coverage, a lender or servicer for a loan shall accept from the borrower an insurance policy declarations page that includes the existing flood insurance policy number and the identity of, and contact information for, the insurance company or agent.</p> |
|--|--|--|

| | |
|--|--|
| | <p>(5) Review of determination regarding the required purchase</p> <p>(A) In general. The borrower and lender for a loan secured by improved real estate or a mobile home may jointly request the Administrator to review a determination of whether the building or mobile home is located in an area having special flood hazards. Such request shall be supported by technical information relating to the improved real estate or mobile home. Not later than 45 days after the Administrator receives the request, the Administrator shall review the determination and provide to the borrower and the lender with a letter stating whether or not the building or mobile home is in an area having special flood hazards. The determination of the Administrator shall be final.</p> <p>(B) Effect of determination. Any person to whom a borrower provides a letter issued by the Administrator pursuant to subparagraph (A), stating that the building or mobile home securing the loan of the borrower is not in an area having special flood hazards, shall have no obligation under this title to require the purchase of flood insurance for such building or mobile home during the period determined by the Administrator, which shall be specified in the letter and shall begin on the date on which such letter is provided.</p> <p>(C) Effect of failure to respond. If a request under subparagraph (A) is made in connection with the origination of a loan and the Administrator fails to provide a letter under subparagraph (A) before the later of</p> <p>(i) the expiration of the 45-day period under such subparagraph, or</p> <p>(ii) the closing of the loan, no person shall have an obligation under this title to require the purchase of flood insurance for the building or mobile home securing the loan until such letter is provided.</p> <p>(6) Applicability. This subsection shall apply to all loans outstanding on or after September 23, 1994.</p> <p>(f) Civil monetary penalties for failure to require flood insurance or notify. (1) Civil monetary penalties against regulated lenders Any regulated lending institution that is found to have a pattern or practice of committing violations under paragraph (2) shall be assessed a civil penalty by the appropriate Federal entity for lending regulation in the amount provided under paragraph (5).</p> <p>(2) Lender violations. The violations referred to in paragraph (1) shall include—</p> |
|--|--|

| | |
|--|---|
| | <p>(A) making, increasing, extending, or renewing loans in violation of—</p> <ul style="list-style-type: none"> (i) the regulations issued pursuant to subsection (b) of this section; (ii) the escrow requirements under subsection (d) of this section; <p>or</p> <ul style="list-style-type: none"> (iii) the notice requirements under section 1364 of the National Flood Insurance Act of 1968; or <p>(B) failure to provide notice or purchase flood insurance coverage in violation of subsection (e) of this section.</p> <p>(6) Lender compliance. Notwithstanding any State or local law, for purposes of this subsection, any regulated lending institution that purchases flood insurance or renews a contract for flood insurance on behalf of or as an agent of a borrower of a loan for which flood insurance is required shall be considered to have complied with the regulations issued under subsection (b) of this section.</p> <p>(7) Effect of transfer on liability. Any sale or other transfer of a loan by a regulated lending institution that has committed a violation under paragraph (1), that occurs subsequent to the violation, shall not affect the liability of the transferring lender with respect to any penalty under this subsection. A lender shall not be liable for any violations relating to a loan committed by another regulated lending institution that previously held the loan.</p> <p>(8) Deposit of penalties. Any penalties collected under this subsection shall be paid into the National Flood Mitigation Fund under section 1367 of the National Flood Insurance Act of 1968.</p> <p>(9) Additional penalties. Any penalty under this subsection shall be in addition to any civil remedy or criminal penalty otherwise available.</p> <p>(10) Statute of limitations. No penalty may be imposed under this subsection after the expiration of the 4-year period beginning on the date of the occurrence of the violation for which the penalty is authorized under this subsection.</p> <p>(g) Other actions to remedy pattern of noncompliance</p> <p>(1) Authority of Federal entities for lending regulation A Federal entity for lending regulation may require a regulated lending institution to take such remedial actions as are necessary to ensure that the regulated lending institution complies with the requirements of the national flood insurance program if the Federal agency for lending regulation makes a</p> |
|--|---|

| | | |
|---|--------------------------------|--|
| | | <p>determination under paragraph (2) regarding the regulated lending institution.</p> <p>(2) Determination of violations. A determination under this paragraph shall be a finding that—</p> <p>(A) the regulated lending institution has engaged in a pattern and practice of noncompliance in violation of the regulations issued pursuant to subsection (b), (d), or (e) of this section or the notice requirements under section 1364 of the National Flood Insurance Act of 1968; and</p> <p>(B) the regulated lending institution has not demonstrated measurable improvement in compliance despite the assessment of civil monetary penalties under subsection (f) of this section.</p> <p>(h) Fee for determining location. Notwithstanding any other Federal or State law, any person who makes a loan secured by improved real estate or a mobile home or any servicer for such a loan may charge a reasonable fee for the costs of determining whether the building or mobile home securing the loan is located in an area having special flood hazards, but only in accordance with the following requirements:</p> <p>(1) Borrower fee. The borrower under such a loan may be charged the fee, but only if the determination—</p> <p>(A) is made pursuant to the making, increasing, extending, or renewing of the loan that is initiated by the borrower;</p> <p>(B) is made pursuant to a revision or updating under section 1360(f) of the floodplain areas and flood-risk zones or publication of a notice or compendia under subsection (h) or (i) of section 1360 that affects the area in which the improved real estate or mobile home securing the loan is located or that, in the determination of the Administrator, may reasonably be considered to require a determination under this subsection; or</p> <p>(C) results in the purchase of flood insurance coverage pursuant to the requirement under subsection (e)(2) of this section.</p> <p>(2) Purchaser or transferee fee. The purchaser or transferee of such a loan may be charged the fee in the case of sale or transfer of the loan.</p> |
| <p>Regulations Respecting Amount of Coverage</p> | <p>42 U.S.C. § 4013</p> | <p>(b) Regulations respecting the amount of coverage. In addition to any other terms and conditions under subsection (a) of this section, such regulations shall provide that—</p> <p>(1) any flood insurance coverage based on chargeable premium rates under section 4015 of this title which are less than the</p> |

| | |
|--|--|
| | <p>estimated premium rates under section 4014(a)(1) of this title shall not exceed—</p> <p>(A) in the case of residential properties—</p> <p>(i) \$35,000 aggregate liability for any single-family dwelling, and \$100,000 for any residential structure containing more than one dwelling unit,</p> <p>(ii) \$10,000 aggregate liability per dwelling unit for any contents related to such unit, and</p> <p>(iii) in the States of Alaska and Hawaii, and in the Virgin Islands and Guam; the limits provided in clause (i) of this sentence shall be: \$50,000 aggregate liability for any single-family dwelling, and \$150,000 for any residential structure containing more than one dwelling unit;</p> <p>(B) in the case of business properties which are owned or leased and operated by small business concerns, an aggregate liability with respect to any single structure, including any contents thereof related to premises of small business occupants (as that term is defined by the Administrator), which shall be equal to</p> <p>(i) \$100,000 plus</p> <p>(ii) \$100,000 multiplied by the number of such occupants and shall be allocated among such occupants (or among the occupant or occupants and the owner) under regulations prescribed by the Administrator; except that the aggregate liability for the structure itself may in no case exceed \$100,000; and</p> <p>(C) in the case of church properties and any other properties which may become eligible for flood insurance under section 4012 of this title—</p> <p>(i) \$100,000 aggregate liability for any single structure, and</p> <p>(ii) \$100,000 aggregate liability per unit for any contents related to such unit; and</p> <p>(2) in the case of any residential building designed for the occupancy of from 1 to 4 families for which the risk premium rate is determined in accordance with the provisions of section 4014 (a)(1) of this title, additional flood insurance in excess of the limits specified in clause (i) of subparagraph (A) of paragraph (1) shall be made available, with respect to any single such building, up to an aggregate liability (including such limits specified in paragraph (1)(A)(i)) of \$250,000;</p> <p>(3) in the case of any residential property for which the risk premium rate is determined in accordance with the provisions of section 4014 (a)(1) of this title, additional flood insurance in</p> |
|--|--|

| | |
|--|--|
| | <p>excess of the limits specified in clause (ii) of subparagraph (A) of paragraph (1) shall be made available to every insured upon renewal and every applicant for insurance so as to enable any such insured or applicant to receive coverage up to a total amount (including such limits specified in paragraph (1)(A)(ii) of \$100,000;</p> <p>(4) in the case of any nonresidential building, including a church, for which the risk premium rate is determined in accordance with the provisions of section 4014 (a)(1) of this title, additional flood insurance in excess of the limits specified in subparagraphs (B) and (C) of paragraph (1) shall be made available with respect to any single such building, up to an aggregate liability (including such limits specified in subparagraph (B) or (C) of paragraph (1), as applicable) of \$500,000, and coverage shall be made available up to a total of \$500,000 aggregate liability for contents owned by the building owner and \$500,000 aggregate liability for each unit within the building for contents owned by the tenant; and</p> <p>(5) any flood insurance coverage which may be made available in excess of the limits specified in subparagraph (A), (B), or (C) of paragraph (1), shall be based only on chargeable premium rates under section 4015 of this title, which are not less than the estimated premium rates under section 4014 (a)(1) of this title, and the amount of such excess coverage shall not in any case exceed an amount equal to the applicable limit so specified (or allocated) under paragraph (1)(C), (2), (3), or (4), as applicable.</p> <p>(c) Effective date of policies</p> <p>(1) Waiting period. Except as provided in paragraph (2), coverage under a new contract for flood insurance coverage under this chapter entered into after September 23, 1994, and any modification to coverage under an existing flood insurance contract made after September 23, 1994, shall become effective upon the expiration of the 30-day period beginning on the date that all obligations for such coverage (including completion of the application and payment of any initial premiums owed) are satisfactorily completed.</p> <p>(2) Exception. The provisions of paragraph (1) shall not apply to—</p> <p>(A) the initial purchase of flood insurance coverage under this chapter when the purchase of insurance is in connection with the making, increasing, extension, or renewal of a loan;</p> |
|--|--|

| | | |
|---------------------------|--------------------------|--|
| | | <p>(B) the initial purchase of flood insurance coverage pursuant to a revision or updating of floodplain areas or flood-risk zones under section 4101 (f) of this title, if such purchase occurs during the 1-year period beginning upon publication of notice of the revision or updating under section 4101 (h) of this title; or</p> <p>(C) the initial purchase of flood insurance coverage for private property if—</p> <p>(i) the Administrator determines that the property is affected by flooding on Federal land that is a result of, or is exacerbated by, post-wildfire conditions, after consultation with an authorized employee of the Federal agency that has jurisdiction of the land on which the wildfire that caused the post-wildfire conditions occurred; and</p> <p>(ii) the flood insurance coverage was purchased not later than 60 days after the fire containment date, as determined by the appropriate Federal employee, relating to the wildfire that caused the post-wildfire conditions described in clause (i).</p> |
| Policy Disclosures | 42 U.S.C. § 4013a | <p>(a) In general. Notwithstanding any other provision of law, in addition to any other disclosures that may be required, each policy under the National Flood Insurance Program shall state all conditions, exclusions, and other limitations pertaining to coverage under the subject policy, regardless of the underlying insurance product, in plain English, in boldface type, and in a font size that is twice the size of the text of the body of the policy.</p> <p>(b) Violations. The Administrator may impose a civil penalty of not more than \$ 50,000 on any person that fails to comply with subsection (a).</p> |
| Payment of Claims | 42 U.S.C. § 4019 | <p>(a) In general. The Administrator is authorized to prescribe regulations establishing the general method or methods by which proved and approved claims for losses may be adjusted and paid for any damage to or loss of property which is covered by flood insurance made available under the provisions of this chapter.</p> <p>(b) Minimum annual deductible</p> <p>(1) Pre-firm properties. For any structure which is covered by flood insurance under this chapter, and on which construction or substantial improvement occurred on or before December 31, 1974, or before the effective date of an initial flood insurance rate map published by the Administrator under section 4101 of this title for the area in which such structure is</p> |

| | | |
|---|-------------------------------|--|
| | | <p>located, the minimum annual deductible for damage to such structure shall be—</p> <p>(A) \$1,500, if the flood insurance coverage for such structure covers loss of, or physical damage to, such structure in an amount equal to or less than \$100,000; and</p> <p>(B) \$2,000, if the flood insurance coverage for such structure covers loss of, or physical damage to, such structure in an amount greater than \$100,000.</p> <p>(2) Post-firm properties. For any structure which is covered by flood insurance under this chapter, and on which construction or substantial improvement occurred after December 31, 1974, or after the effective date of an initial flood insurance rate map published by the Administrator under section 4101 of this title for the area in which such structure is located, the minimum annual deductible for damage to such structure shall be—</p> <p>(A) \$1,000, if the flood insurance coverage for such structure covers loss of, or physical damage to, such structure in an amount equal to or less than \$100,000; and</p> <p>(B) \$1,250, if the flood insurance coverage for such structure covers loss of, or physical damage to, such structure in an amount greater than \$100,000.</p> <p>(c) Payment of claims to condominium owners. The Administrator may not deny payment for any damage to or loss of property which is covered by flood insurance to condominium owners who purchased such flood insurance separate and apart from the flood insurance purchased by the condominium association in which such owner is a member, based solely, or in any part, on the flood insurance coverage of the condominium association or others on the overall property owned by the condominium association.</p> |
| <p>Escrow/Notice Requirement</p> | <p>12 C.F.R. §22.5</p> | <p>Escrow account. The national bank or Federal savings association, or a servicer acting on its behalf, shall deposit the flood insurance premiums and fees on behalf of the borrower in an escrow account. This escrow account will be subject to escrow requirements adopted pursuant to section 10 of RESPA, which generally limits the amount that may be maintained in escrow accounts for certain types of loans and requires escrow account statements for those accounts, only if the loan is otherwise subject to RESPA. Following receipt of a notice from the Administrator of FEMA or other provider of flood insurance that premiums are due, the national bank or Federal savings association, or a servicer acting on its behalf, shall pay the</p> |

| | | |
|---|------------------------|---|
| | | <p>amount owed to the insurance provider from the escrow account by the date when such premiums are due.</p> <p>Notice. For any loan for which a national bank or Federal savings association is required to escrow under paragraphs (a)(1) or (c)(2) of this section or may be required to escrow under paragraphs (a)(3) of this section during the term of the loan, the national bank or Federal savings association, or a servicer acting on its behalf, shall mail or deliver a written notice with the notice provided under § 22.9 informing the borrower that the national bank or Federal savings association is required to escrow all premiums and fees for required flood insurance, using language that is substantially similar to model clauses on the escrow requirement in appendix A to this part.</p> |
| Required Use of Standard Flood Hazard Determination Form | 12 C.F.R. §22.6 | <p>(a) Use of form. A national bank or Federal savings association shall use the standard flood hazard determination form developed by the Administrator of FEMA when determining whether the building or mobile home offered as collateral security for a loan is or will be located in a special flood hazard area in which flood insurance is available under the Act. The standard flood hazard determination form may be used in a printed, computerized, or electronic manner. A national bank or Federal savings association may obtain the standard flood hazard determination form from FEMA's Web site at www.fema.gov.</p> <p>(b) Retention of form. A national bank or Federal savings association shall retain a copy of the completed standard flood hazard determination form, in either hard copy or electronic form, for the period of time the bank or savings association owns the loan.</p> |
| Forced Placement of Insurance | 12 C.F.R. §22.7 | <p>(a) Notice and purchase of coverage. If a national bank or Federal savings association, or a servicer acting on behalf of the bank or savings association, determines at any time during the term of a designated loan, that the building or mobile home and any personal property securing the designated loan is not covered by flood insurance or is covered by flood insurance in an amount less than the amount required under § 22.3, then the national bank or Federal savings association, or a servicer acting on its behalf, shall notify the borrower that the borrower should obtain flood insurance, at the borrower's expense, in an amount at least equal to the amount required under § 22.3, for</p> |

| | | |
|----------------------------------|-------------------------------|---|
| | | <p>the remaining term of the loan. If the borrower fails to obtain flood insurance within 45 days after notification, then the national bank or Federal savings association, or its servicer, shall purchase insurance on the borrower's behalf. The national bank or Federal savings association, or its servicer, may charge the borrower for the cost of premiums and fees incurred in purchasing the insurance, including premiums or fees incurred for coverage beginning on the date on which flood insurance coverage lapsed or did not provide a sufficient coverage amount.</p> <p>(b) Termination of force-placed insurance --(1) Termination and refund. Within 30 days of receipt by a national bank or Federal savings association, or by a servicer acting on its behalf, of a confirmation of a borrower's existing flood insurance coverage, the national bank or Federal savings association, or its servicer, shall:</p> <p>(i) Notify the insurance provider to terminate any insurance purchased by the national bank or Federal savings association, or its servicer, under paragraph (a) of this section; and</p> <p>(ii) Refund to the borrower all premiums paid by the borrower for any insurance purchased by the national bank or Federal savings association, or by its servicer, under paragraph (a) of this section during any period during which the borrower's flood insurance coverage and the insurance coverage purchased by the national bank or Federal savings association, or its servicer, were each in effect, and any related fees charged to the borrower with respect to the insurance purchased by the national bank or Federal savings association, or its servicer, during such period.</p> <p>(2) Sufficiency of demonstration. For purposes of confirming a borrower's existing flood insurance coverage under paragraph (b) of this section, a national bank or Federal savings association, or a servicer acting on its behalf, shall accept from the borrower an insurance policy declarations page that includes the existing flood insurance policy number and the identity of, and contact information for, the insurance company or agent.</p> |
| <p>Determination Fees</p> | <p>12 C.F.R. §22.8</p> | <p>(a) General. Notwithstanding any Federal or State law other than the Flood Disaster Protection Act of 1973 as amended (42 U.S.C. 4001-4129), any national bank or Federal savings association, or a servicer acting on behalf of the national bank or Federal savings association, may charge a reasonable fee for</p> |

| | | |
|--|-------------------------------|---|
| | | <p>determining whether the building or mobile home securing the loan is located or will be located in a special flood hazard area. A determination fee may also include, but is not limited to, a fee for life-of-loan monitoring.</p> <p>(b) Borrower fee. The determination fee authorized by paragraph (a) of this section may be charged to the borrower if the determination:</p> <ol style="list-style-type: none"> (1) Is made in connection with making, increasing, extending, or renewing of the loan that is initiated by the borrower; (2) Reflects the Administrator of FEMA's revision or updating of floodplain areas or flood-risk zones; (3) Reflects the Administrator of FEMA's publication of a notice or compendium that: <ol style="list-style-type: none"> (i) Affects the area in which the building or mobile home securing the loan is located; or (ii) By determination of the Administrator of FEMA, may reasonably require a determination whether the building or mobile home securing the loan is located in a special flood hazard area; or (4) Results in the purchase of flood insurance coverage by the bank or its servicer on behalf of the borrower under § 22.7. <p>(c) Purchaser or transferee fee. The determination fee authorized by paragraph (a) of this section may be charged to the purchaser or transferee of a loan in the case of the sale or transfer of the loan.</p> |
| <p>Notice of Special Flood Hazards and Availability of Federal Disaster Relief Assistance</p> | <p>12 C.F.R. §22.9</p> | <p>(a) Notice requirement. When a national bank or Federal savings association makes, increases, extends, or renews a loan secured by a building or a mobile home located or to be located in a special flood hazard area, the bank or savings association shall mail or deliver a written notice to the borrower and to the servicer in all cases whether or not flood insurance is available under the Act for the collateral securing the loan.</p> <p>(b) Contents of notice. The written notice must include the following information:</p> <ol style="list-style-type: none"> (1) A warning, in a form approved by the Administrator of FEMA, that the building or the mobile home is or will be located in a special flood hazard area; (2) A description of the flood insurance purchase requirements set forth in section 102(b) of the Flood Disaster Protection Act of 1973, as amended (42 U.S.C. 4012a(b)); (3) A statement, where applicable, that flood insurance coverage is available from private insurance companies that |

| | |
|--|---|
| | <p>issue standard flood insurance policies on behalf of the NFIP or directly from the NFIP;</p> <p>(4) A statement that flood insurance that provides the same level of coverage as a standard flood insurance policy under the NFIP also may be available from a private insurance company that issues policies on behalf of the company;</p> <p>(5) A statement that the borrower is encouraged to compare the flood insurance coverage, deductibles, exclusions, conditions, and premiums associated with flood insurance policies issued on behalf of the NFIP and policies issued on behalf of private insurance companies and that the borrower should direct inquiries regarding the availability, cost, and comparisons of flood insurance coverage to an insurance agent; and</p> <p>(6) A statement whether Federal disaster relief assistance may be available in the event of damage to the building or mobile home caused by flooding in a Federally declared disaster.</p> <p>(c) Timing of notice. The national bank or Federal savings association shall provide the notice required by paragraph (a) of this section to the borrower within a reasonable time before the completion of the transaction, and to the servicer as promptly as practicable after the bank or savings association provides notice to the borrower and in any event no later than the time the bank or savings association provides other similar notices to the servicer concerning hazard insurance and taxes. Notice to the servicer may be made electronically or may take the form of a copy of the notice to the borrower.</p> <p>(d) Record of receipt. The national bank or savings association shall retain a record of the receipt of the notices by the borrower and the servicer for the period of time it owns the loan.</p> <p>(e) Alternate method of notice. Instead of providing the notice to the borrower required by paragraph (a) of this section, a national bank or Federal savings association may obtain satisfactory written assurance from a seller or lessor that, within a reasonable time before the completion of the sale or lease transaction, the seller or lessor has provided such notice to the purchaser or lessee. The national bank or Federal savings association shall retain a record of the written assurance from the seller or lessor for the period of time it owns the loan.</p> <p>(f) Use of sample form of notice. A national bank or Federal savings association will be considered to be in compliance with the requirement for notice to the borrower of this section by</p> |
|--|---|

| | | |
|---|---|--|
| | | <p>providing written notice to the borrower containing the language presented in appendix A to this part within a reasonable time before the completion of the transaction. The notice presented in appendix A to this part satisfies the borrower notice requirements of the Act.</p> |
| <p>Notice of Servicer's Identity</p> | <p>12 C.F.R. §22.10</p> | <p>(a) Notice requirement. When a national bank or Federal savings association makes, increases, extends, renews, sells, or transfers a loan secured by a building or mobile home located or to be located in a special flood hazard area, it shall notify the Administrator of FEMA (or the Administrator's designee) in writing of the identity of the servicer of the loan. The Administrator of FEMA has designated the insurance provider to receive the national bank's or Federal savings association's notice of the servicer's identity. This notice may be provided electronically if electronic transmission is satisfactory to the Administrator of FEMA's designee.</p> <p>(b) Transfer of servicing rights. The national bank or Federal savings association shall notify the Administrator of FEMA (or the Administrator's designee) of any change in the servicer of a loan described in paragraph (a) of this section within 60 days after the effective date of the change. This notice may be provided electronically if electronic transmission is satisfactory to the Administrator of FEMA's designee. Upon any change in the servicing of a loan described in paragraph (a) of this section, the duty to provide notice under this paragraph (b) shall transfer to the transferee servicer.</p> |
| <p>Sample Form of Notice of Special Flood Hazards and Availability of Federal Disaster Relief Assistance</p> | <p>12 C.F.R. Appendix A to Part 22</p> | <p>Notice of Special Flood Hazards and Availability of Federal Disaster Relief Assistance</p> <p>We are giving you this notice to inform you that: The building or mobile home securing the loan for which you have applied is or will be located in an area with special flood hazards.</p> <p>The area has been identified by the Administrator of the Federal Emergency Management Agency (FEMA) as a special flood hazard area using FEMA's Flood Insurance Rate Map or the Flood Hazard Boundary Map for the following community: This area has a one percent (1%) chance of a flood equal to or exceeding the base flood elevation (a 100-year flood) in any given year. During the life of a 30-year mortgage loan, the risk</p> |

| | |
|--|--|
| | <p>of a 100-year flood in a special flood hazard area is 26 percent (26%).</p> <p>Federal law allows a lender and borrower jointly to request the Administrator of FEMA to review the determination of whether the property securing the loan is located in a special flood hazard area. If you would like to make such a request, please contact us for further information.</p> <p>The community in which the property securing the loan is located participates in the National Flood Insurance Program (NFIP). Federal law will not allow us to make you the loan that you have applied for if you do not purchase flood insurance. The flood insurance must be maintained for the life of the loan. If you fail to purchase or renew flood insurance on the property, Federal law authorizes and requires us to purchase the flood insurance for you at your expense.</p> <p>_ At a minimum, flood insurance purchased must cover the lesser of:</p> <ul style="list-style-type: none"> (1) the outstanding principal balance of the loan; or (2) the maximum amount of coverage allowed for the type of property under the NFIP. <p>Flood insurance coverage under the NFIP is limited to the building or mobile home and any personal property that secures your loan and not the land itself.</p> <p>_ Federal disaster relief assistance (usually in the form of a low-interest loan) may be available for damages incurred in excess of your flood insurance if your community's participation in the NFIP is in accordance with NFIP requirements.</p> <p>_ Although you may not be required to maintain flood insurance on all structures, you may still wish to do so, and your mortgage lender may still require you to do so to protect the collateral securing the mortgage. If you choose not to maintain flood insurance on a structure and it floods, you are responsible for all flood losses relating to that structure.</p> <p>Availability of Private Flood Insurance Coverage Flood insurance coverage under the NFIP may be purchased through an insurance agent who will obtain the policy either directly through the NFIP or through an insurance company that participates in the NFIP. Flood insurance that provides the same level of coverage as a standard flood insurance policy under the</p> |
|--|--|

| | |
|--|---|
| | <p>NFIP may be available from private insurers that do not participate in the NFIP. You should compare the flood insurance coverage, deductibles, exclusions, conditions, and premiums associated with flood insurance policies issued on behalf of the NFIP and policies issued on behalf of private insurance companies and contact an insurance agent as to the availability, cost, and comparisons of flood insurance coverage.</p> <p>[Escrow Requirement for Residential Loans Federal law may require a lender or its servicer to escrow all premiums and fees for flood insurance that covers any residential building or mobile home securing a loan that is located in an area with special flood hazards. If your lender notifies you that an escrow account is required for your loan, then you must pay your flood insurance premiums and fees to the lender or its servicer with the same frequency as you make loan payments for the duration of your loan. These premiums and fees will be deposited in the escrow account, which will be used to pay the flood insurance provider.]</p> <p>Flood insurance coverage under the NFIP is not available for the property securing the loan because the community in which the property is located does not participate in the NFIP. In addition, if the non-participating community has been identified for at least one year as containing a special flood hazard area, properties located in the community will not be eligible for Federal disaster relief assistance in the event of a Federally declared flood disaster.</p> |
|--|---|

References

Reference List

[FEMA](#)

Revision History

Revision History is to be used as a reference only and will only provide a summary of document changes. For complete versioning, refer to the Google Docs versioning functionality, which is the system of record.

| Date | Description | Approver | Octane Alignment |
|----------|---|----------------|------------------|
| 11.18.25 | Added Ineligible Property Insurance Policies section which clarifies policies that provide for claims to be settled on an Actual Cash Value or Stated Value Coverage are not acceptable This update is a Cardinal Overlay and is effective immediately for all loans in process | Kristen Bellon | <i>Pending</i> |
| 6.5.25 | Added new Ineligible Insurance Providers section. <i>This update is effective immediately.</i> | Ellen Clayson | <i>Pending</i> |
| 5.19.25 | Clarified in the Homeowner’s Insurance Coverage Requirements section that an Actual Cash Value claims settlement cannot be applied to roofs, regardless of age. <i>This is a clarification and effective immediately.</i> | Ellen Clayson | - |
| 4.29.25 | Updated Replacement Cost Value section to remove Extended Replacement Cost Endorsement from Option 1. <i>This update is effective immediately.</i> | Ellen Clayson | <i>Pending</i> |
| 4.10.25 | Updated the Flood Insurance Coverage Requirements section retracing the announcement from Freddie Mac effective 4/1/2025 stating if a flood insurance policy shows a full risk premium and a discounted premium, the full risk premium, plus any fees and surcharges, must be used to calculate the housing expense-to-income and debt payment-to-income ratios <i>This retraction from Freddie Mac is effective immediately</i> | Kristen Bellon | - |
| 3.19.25 | The Homeowners Insurance > Acceptable Term of Policy and Flood Insurance > Term and Renewal sections have been revised to provide requirements for refinance transactions where the policy expires within 30 days of the Note Date. <i>This update is effective immediately.</i> | Ellen Clayson | <i>Complete</i> |
| 3.18.25 | The Coverage Requirements and Deductible sections have been revised for clarity and consistency. <i>No change to existing policy with this update.</i> | Ellen Clayson | - |
| 9.3.24 | Addressed Flood Insurance Premium amount changes for Freddie Mac, specifying that if a flood insurance policy shows a full risk premium and a discounted | Kristen Bellon | - |

| | | | |
|---------|---|----------------|----------|
| | premium, the full risk premium, plus any fees and surcharges, must be used to calculate the housing expense-to-income and debt payment-to-income ratios. This update is effective for Note dates on or after 4.1.25 | | |
| 5.28.24 | Updated Compliance Aid for Mandatory Acceptance section with clarification from FHA that in the absence of the Aid within the policy, the mortgagee may determine if FHA requirements are met, or rely on a separate provision containing the language. This update is effective immediately | Kristen Bellon | - |
| 5.1.24 | Updated Property Insurance maximum deductible for USDA transactions to align with all agencies indicating a maximum of 5% of the Policy Coverage Amount. This update is effective with TRID application date on or after 5.6.24 | Kristen Bellon | Complete |
| 4.22.24 | Indicated Cardinal Overlays to agency guidelines by highlighting text in our signature <i>Riptide</i> color. Overlays correspond to Cardinal Retail Overlay or TPO Overlay Matrix | Kristen Bellon | - |
| 4.10.24 | Added the following updates for Fannie Mae and Freddie Mac loans. These updates are effective with TRID application date on or after 6.1.24, but may be applied immediately: <ul style="list-style-type: none"> • Clarified that in addition to policies that provide for claims to be settled on an actual cash value basis, policies that limit, depreciate, reduce or otherwise settle loses at anything other than replacement cost basis are not acceptable • The lender and servicer are responsible for verifying that the coverage amount meets requirements <i>as of the current insurance policy effective date</i> • Removed coinsurance requirements | Kristen Bellon | Complete |
| 3.13.24 | Updated the Maximum Deductible Amount for Flood Insurance for USDA loans to specify for TRID Application Date on or after 4.1.24, the maximum | Kristen Bellon | Complete |

| | | | |
|----------|---|----------------|---|
| | deductible amount may not exceed the NFIP Maximum of \$10,000 Updated required coverage calculations for VA and USDA to be the lowest of the outstanding principal balance or maximum available coverage from NFIP. This is a clarification and is effective immediately | Ellen Clayson | |
| 2.14.24 | Added National Flood Insurance Program Lapse section which provides guidance from FNMA in case of a NFIP lapse | Kristen Bellon | - |
| 10.12.23 | Added an additional tool for obtaining Replacement Cost Value for Hazard and Flood insurance coverage | Kristen Bellon | |
| 8.11.23 | Added link to Hazard Insurance Coverage Calculator when using Option 2 to determine sufficient coverage; added section Steps to Calculate the Amount of Required Property Insurance Coverage for Option 2 along with Examples | Ellen Clayson | |
| - | Reformatted Flood Insurance section for ease in reading. Added link to Flood Insurance Coverage Calculator. Clarified documentation to determine Replacement Cost Value for a flood policy. | Ellen Clayson | |
| 5.1.23 | Added updated guidance for FNMA loans that the individual property or flood insurance policy must name all persons holding title to the subject property as named insured (previously allowed as optional for title-holders only) | Kristen Bellon | |
| - | Added guidance that insurance policies that provide for claims to be settled on an actual cash value basis are not acceptable | Kristen Bellon | |
| - | Expanded definition of covered perils | Kristen Bellon | |
| - | Added clarification for FNMA loans that the maximum allowable deductible for all one- to four-unit properties applies to all required perils, | Kristen Bellon | |

| | | | |
|----------|--|----------------|--|
| | including when a property insurance policy includes multiple deductibles | | |
| 2.27.23 | Added guidance for Lava Insurance according to VA Local Requirements | Kristen Bellon | |
| 12.6.22 | Revised Private Flood Insurance section to include updated guidance allowing private flood insurance on FHA transactions with Case Number Assignments on or after 12.21.22 | Kristen Bellon | |
| 9.20.22 | Updated Coverage Requirements section to clarify that the hazard insurance policy must be effective at the time of closing and through delivery. The minimum effective length of the policy for purchase and refinance transactions has been removed | Kristen Bellon | |
| 3.28.22 | Updated eligibility for insurer requirements removing the FSC requirement and separate rating for non-US insurers for Freddie Mac transactions | Kristen Bellon | |
| 12.13.21 | Immaterial changes. Corrected grammar and formatting to align with company standards | N/A | |
| 3.24.21 | Added guidance for Hazard and Flood Insurance Policies clarifying that the borrower's name(s) must show as the primary insured. Added clarification that title-only borrowers are not required to be shown on the policy | Kristen Bellon | |
| 2.18.21 | Corrected link for acceptable private flood insurers | Shannon Ames | |
| 1.27.21 | Incorporated Cardinal's Homeowners and Flood Insurance Policies into this document | Kristen Bellon | |
| 7.9.20 | Added Flood Insurance Maximum Deductible Amount section | Kristen Bellon | |
| 5.29.20 | Clarified that only Conventional loans must comply with Insurance Company Rating requirements | Ellen Clayson | |
| 2.11.20 | Updated Hazard Insurance and Flood Insurance Evidence of Payment sections to allow a copy of the | Erica Price | |

| | | | |
|---------|--|----------------|--|
| | Insurance Application and the first year's premium collected at settlement and reflected on the Closing Disclosure as proof of payment | | |
| 1.17.20 | Updated Homeowner's Insurance Deductible requirements for USDA loans | Kristen Bellon | |
| 1.14.20 | Updated Flood Insurance and Private Flood Insurance sections | Erica Price | |
| 7.15.19 | Revisions Made to Loss Payee/Mortgagee Clause, Non-Impounded Loan Requirements and Certificate of Insurance Sections | Ellen Clayson | |
| 5.2019 | Added Clarification from The Loop regarding ACORD Binders | Ellen Clayson | |
| 1.21.19 | Flood Coverage and Deductible | | |
| 11.2018 | Clarified flood insurance maximum deductible | Erica Price | |
| 9.2017 | Initial Approval | Erica Price | |