

---

**From:** Wayne Pierce  
**Sent:** Thursday, May 12, 2022 4:35 PM  
**To:** Sales; Mortgage Support Center  
**Subject:** Flood Insurance  
**Attachments:** HOI and Flood Insurance Requirements.pdf; Private Flood Insurance Checklist (3).docx

Good afternoon. We have seen quite a few files with Flood Insurance over the last few days so I wanted to send a reminder out to everyone regarding these. I am attaching our current Hazard and Flood Insurance Checklist from our website for review.

1. If we only have an application for the flood insurance it needs to be executed by all parties if it has signature lines.
2. FHA will not allow Private Flood Insurance. FHA Flood has to notate that it is an NFIP Flood Policy.
3. Private Flood Insurance needs to meet certain requirements. Please see the attached checklist to make sure it meets the requirements.

If you ever have questions please feel free to contact [ops@flanagansstatebank.com](mailto:ops@flanagansstatebank.com) and we will be more than happy to review the Flood Insurance for you.

Thanks,

Wayne Pierce  
Operations Manager  
NMLS #1487019  
[www.fsbtpo.com](http://www.fsbtpo.com)  
815-676-0987 Direct Office  
815-676-0990 Office  
815-901-7148 Cell





## HOMEOWNERS INSURANCE REQUIREMENTS

Flanagan State Bank requires the following for Homeowners Insurance Declarations/Binders

- Property address to match appraisal address exactly
- Deductible to be indicated on dec page – cannot exceed 5% of dwelling or \$5000, whichever is less (please note, Freddie Mac loans do not limit the deductible to \$5000. It simply cannot exceed 5% of dwelling)
  - USDA deductible not to exceed **the greater** of either \$1000 or 1 percent of the policy coverage
- Borrowers' names to be spelled correctly
- FSB Loan Number to be identified on the binder or Dec Page
- Mortgage Clause to read exactly:

Flanagan State Bank  
ISAOA  
333 Chicago Road  
PO Box 302  
Paw Paw, IL 61353

- Dwelling coverage to be indicated. Must cover loan amount OR
  - All programs, including USDA – guaranteed full replacement coverage is acceptable in lieu of dwelling coverage covering loan amount. Coverage must clearly show this is FULL replacement coverage. If the coverage amount is limited in amount or has a cap, this may not be acceptable. Policy must provide verbiage on this for clarification of the amount of coverage.
  - USDA – if the appraisal has the Total Estimate of Cost new completed and it is less than the Total Loan Amount, then we can use this information to determine the minimum amount of Dwelling Coverage needed.
- Effective date to be on or before closing date. Purchase loans must have effective date to show the same month as the closing.
- Must have paid receipt or pay premium at closing for 1 year (purchase or refinance)
- Condo – must have HO-6 insurance to cover 20% of appraised value
- Condo Master Insurance must show unit owner name and unit. Must have \$1,000,000 in building coverage and liability coverage.

## FLOOD INSURANCE REQUIREMENTS

- Government Loans (USDA, FHA and VA) require use of NFIP Flood Insurance and will not accept a private flood insurance vendor. Conventional loans may use NFIP or Private vendor for flood insurance as long as the requirements noted here are met.
- Dwelling to cover loan amount. Unless loan amount is over \$250,000. \$250,000 is the max FEMA allows. RD requires total estimated cost new on cost approach section of appraisal.
- Flood zone to be indicated and must match flood zone on appraisal and flood cert.
- Unless a higher maximum amount is required by state law, the maximum allowable deductible is \$5000.

- USDA will remain at the above requirement of the deductible not to exceed **the greater** of either \$1000 or 1 percent of the policy coverage
- USDA Flood Insurance must cover the lesser of the outstanding principal balance of the loan or the maximum amount of coverage allowed under FEMA's National Flood Insurance Program (NFIP)
- All the other homeowner's insurance requirements apply to flood insurance as well, see above.
- Condos in a Flood Zone will require proof of flood insurance for the HOA and depending on the coverage amounts, may require additional coverage from the borrower.
- Rating of insurer – required insurance must be provided by one of the following insurers:
  - 1) An insurer with a current rating that meets the requirements below:
    - a. For an insurer rated by A.M. Best Company (A.M. Best), a minimum Financial Strength Rating of B+/III, or for a non-U.S. insurer, A/VIII, as reported online at [www.ambest.com](http://www.ambest.com)
    - b. For an insurer rated by Demotech, Inc., a minimum Financial Strength Rating of A as reported online at [www.demotech.com](http://www.demotech.com)
    - c. For an insurer rated by Standard & Poor's, a division of The McGraw-Hill Companies ("Standard & Poor's"), a minimum Financial Strength Rating of BBB as reported online at [www.standardandpoors.com](http://www.standardandpoors.com)
  - 2) An insurer with coverage that is guaranteed by a reinsurer under all of the following conditions:
    - a. The reinsurer's current rating meets the requirements below:
      - i. For a reinsurer rated by A.M. Best, a minimum Financial Strength Rating of B+/III, or for a no-U.S. reinsurer, A/VIII; or
      - ii. For a reinsurer rated by Standard & Poor's, a minimum Financial Strength Rating of BBB
    - b. The reinsurer assumes by endorsement to give the policyholder, the Seller/Service and insurer 90-day written notice before canceling or otherwise terminating the guarantee
    - c. The above endorsements are attached to each property insurance policy accepted by the Seller/Service on account of the endorsements
  - 3) 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 pool may be designated as a property insurance plan, a Fair Access to Insurance Requirements (FAIR) plan, an underwriting association, a joint underwriting association or an insurance authority)
  - 4) A non-admitted insurer with a current rating that meets the requirements below:
    - a. For an insurer rated by A.M. Best, a minimum Financial Strength Rating of A, or
    - b. For an insurer rated by Standard & Poor's, a minimum Financial Strength Rating of AA
  - 5) An insurer with coverage that is guaranteed by the National Flood Insurance Program (NFIP) under a Standard Flood Insurance Policy issued pursuant to the National Flood Insurance Act of 1968, as amended.

Insurers rated by more than one rating company need only meet one of the rating requirements.

## Private Flood Insurance Checklist

**Borrower Name** \_\_\_\_\_  
**Property Address** \_\_\_\_\_  
**Date of Review** \_\_\_\_\_ **Loan #** \_\_\_\_\_  
**Reviewer Name** \_\_\_\_\_  
**Private Insurance Company** \_\_\_\_\_

Yes	No	
<input type="checkbox"/>	<input type="checkbox"/>	<b>1. Does the flood insurance policy include the following verbiage:</b>
<i>"This policy meets the definition of private flood insurance contained in 42 U.S.C. 4012a(b)(7) and the corresponding regulation."</i>		
If yes, STOP. The private flood insurance policy is acceptable.		
If no, continue, as a lender cannot reject a private policy solely because it is not accompanied by this statement.		

Use the most recent SFIP policy located in the FEMA flood insurance manual to assist the lender in completing #2 and #3 above: FEMA Flood Insurance Manual - <https://www.fema.gov/flood-insurance-manual> Appendix A: Policy

Yes	No	
<input type="checkbox"/>	<input type="checkbox"/>	<b>2. Does the policy include all of the following:</b>
<input type="checkbox"/>	<input type="checkbox"/>	Requirement for the insurer to give written notice 45 days before cancellation or non-renewal of flood insurance coverage to the insured and the institution that made the designated loan or the servicer acting on its behalf
<input type="checkbox"/>	<input type="checkbox"/>	Information about the availability of flood insurance coverage under the NFIP
<input type="checkbox"/>	<input type="checkbox"/>	Mortgage interest clause similar to the clause contained in a Standard Flood Insurance Policy (SFIP)
<input type="checkbox"/>	<input type="checkbox"/>	Provision requiring an insured to file suit not later than one year after the date of a written denial of all or part of a claim under the policy
<input type="checkbox"/>	<input type="checkbox"/>	Cancellation provisions that are as restrictive as the provisions contained in an SFIP

Yes	No	
<input type="checkbox"/>	<input type="checkbox"/>	<b>3. Is the policy coverage at least as broad as the coverage provided under a SFIP policy</b>
<input type="checkbox"/>	<input type="checkbox"/>	Policy defines the term "flood" to include the events defined as "flood" in an SFIP
<input type="checkbox"/>	<input type="checkbox"/>	Contain the coverage specified in an SFIP, including that relating to building property coverage; personal property coverage, if purchased by the insured; other coverages, and increased cost of compliance coverage
<input type="checkbox"/>	<input type="checkbox"/>	Contain deductibles no higher than the specified maximum*, and include similar non-applicability provisions, as under an SFIP, for any total policy coverage amount up to the maximum available under the NFIP at the time the policy is provided to the lender
<p><b>* Regular Program Total Insurance Limits:</b> 1-4 Family Dwelling \$250,000; Other Residential and Non-Residential Building \$500,000; Residential Property Content Coverage \$100,000; Non-Residential Business &amp; Other Property Content Coverage \$500,000</p>		
<input type="checkbox"/>	<input type="checkbox"/>	Provide coverage for direct physical loss caused by a flood and may only exclude other causes of loss that are excluded in an SFIP. Any exclusions other than those in an SFIP may pertain only to coverage that is in addition to the amount and type of coverage that could be provided by an SFIP or have the effect of providing broader coverage to the policyholder
<input type="checkbox"/>	<input type="checkbox"/>	Not contain conditions that narrow the coverage provided in an SFIP

If all responses in #2 and #3 above are yes, STOP. The private flood insurance policy is acceptable.

If any of the areas in #2 or #3 are no, continue to #4 if the institution allows the lender to opt for discretionary acceptance. NOTE: Discretionary acceptance is not mandatory. The lender can reject a private policy if it does not meet the definition of private flood insurance.

Yes	No	4. Regarding optional discretionary acceptance, determine if the private flood insurance policy meets the following:
<input type="checkbox"/>	<input type="checkbox"/>	Is the policy a plan issued by a mutual aid society? If yes, SKIP the remaining items in #4 and go to #5. If no, continue. The regulation defines “mutual aid society” as an organization: <ul style="list-style-type: none"> <li>• Whose members share a common religious, charitable, educational or fraternal bond;</li> <li>• That covers losses caused by damage to members’ property pursuant to an agreement, including damage caused by flooding, in accordance with this common bond; and</li> <li>• That has a demonstrated history of fulfilling terms of agreements to cover losses to members’ property caused by flooding.</li> </ul>
<input type="checkbox"/>	<input type="checkbox"/>	Provides coverage in the amount required
<input type="checkbox"/>	<input type="checkbox"/>	Is issued by an insurer that is licensed, admitted, or otherwise approved to engage in the business of insurance by the insurance regulator of the State or jurisdiction in which the property to be insured is located; or in the case of a policy of difference in conditions, multiple peril, all risk, or other blanket coverage insuring nonresidential commercial property, is issued by a surplus lines insurer recognized, or not disapproved, by the insurance regulator of the State or jurisdiction where the property to be insured is located
<input type="checkbox"/>	<input type="checkbox"/>	Covers both the lender(s) and borrower(s) as loss payees, except in the case of a policy that is provided by a condominium association, cooperative, homeowners association, or other applicable group and for which the premium is paid by the condominium association, cooperative, homeowners association, or other applicable group as a common expense
<input type="checkbox"/>	<input type="checkbox"/>	Provides sufficient protection of the designated loan, consistent with general safety and soundness principles. NOTE: the lender must document its conclusion regarding sufficiency of the protection of the loan in writing.  Factors that a lender could consider in making the “sufficient protection” determination: <ul style="list-style-type: none"> <li>• Whether the policy’s deductibles are reasonable based on the borrower’s financial condition</li> <li>• Whether the insurer provides adequate notice of cancellation to the borrower and lender to ensure the borrower has time to obtain replacement insurance or the lender can provide timely force placement of flood insurance, if necessary</li> <li>• Whether the terms and conditions of the policy with respect to payment per occurrence or per loss and aggregate limits are adequate to protect the lender’s interest in the collateral</li> <li>• Whether the policy complies with applicable State insurance laws</li> <li>• Whether the private insurance company has the financial solvency, strength and ability to satisfy claims</li> </ul>

Yes	No	5. Does the plan issued by a mutual aid society meet the following:
<input type="checkbox"/>	<input type="checkbox"/>	The lender’s supervisory agency has determined that such plans qualify as flood insurance for purposes of the Act
<input type="checkbox"/>	<input type="checkbox"/>	The plan provides coverage in the amount required by the regulation
<input type="checkbox"/>	<input type="checkbox"/>	The plan covers both the borrower(s) and the lender(s) as loss payees
<input type="checkbox"/>	<input type="checkbox"/>	The plan provides sufficient protection of the designated loan, consistent with general safety and soundness principles, and the lender documented its conclusion regarding sufficiency of the protection of the loan in writing.

Comments:
-----------