



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-8000

ASSISTANT SECRETARY FOR HOUSING-
FEDERAL HOUSING COMMISSIONER

Date: November 21, 2022

Mortgagee Letter 2022-18

To: All FHA-Approved Mortgagees
All FHA-Approved Title I Lenders
All Direct Endorsement Underwriters
All Eligible Submission Sources for Condominium Project Approvals
All FHA Roster Appraisers
All FHA-Approved 203(k) Consultants
All HUD-Approved Housing Counselors
All HUD-Approved Nonprofit Organizations
All Governmental Entity Participants
All Real Estate Brokers
All Closing Agents

Subject Acceptance of Private Flood Insurance for FHA-Insured Mortgages

Purpose This Mortgagee Letter (ML) updates FHA's mandatory Flood Insurance purchase requirement to allow for acceptance of Private Flood Insurance policies that meet FHA's requirements in lieu of a National Flood Insurance Program (NFIP) policy.

Effective Date The provisions of this Mortgagee Letter are effective on December 21, 2022.

All updates will be incorporated into a forthcoming update of the HUD Handbook 4000.1, *FHA Single Family Housing Policy Handbook* (Handbook 4000.1).

Public Feedback HUD welcomes feedback from interested parties for a period of 30 calendar days from the date of issuance. To provide feedback on this policy document, please send feedback to the FHA Resource Center at answers@hud.gov. HUD will consider the feedback in determining the need for future updates.

Affected Programs

The provisions of this ML apply to all FHA Single Family Title I and Title II Programs, including Home Equity Conversion Mortgages (HECM).

Background

The Flood Disaster Protection Act (FDPA) of 1973, as amended, including by the, National Flood Insurance Reform Act of 1994, mandated the purchase of Flood Insurance for all properties located in a community participating in the NFIP and mapped in Special Flood Hazard Areas (SFHA) as a condition of receiving a mortgage insured by FHA or backed by the Department of Veterans Affairs (VA), the United States Department of Agriculture (USDA), the Federal National Mortgage Association (Fannie Mae), or the Federal Home Loan Mortgage Corporation (Freddie Mac).

The Biggert-Waters Insurance Reform Act of 2012, amended in 2014, (Biggert-Waters Act), required federal entities for lending regulation, federal agency lenders, and government sponsored enterprises for housing (Fannie Mae and Freddie Mac) to direct lenders to accept private flood insurance to satisfy the mandatory purchase requirements, instead of NFIP if the private flood insurance meets Biggert-Waters defined conditions. However, the Biggert-Waters Act did not apply to FHA-insured mortgages. FHA insurance program regulations at 24 CFR parts 201, 203, and 206 do not permit private flood insurance as an option to satisfy the mandatory purchase requirement under the FDPA.

On November 23, 2020, HUD published a proposed rule in the Federal Register (FR) in 85 FR 74630 to allow for public feedback on the proposed changes to 24 CFR Parts 201, 203, and 206. These changes would allow FHA Borrowers the option to purchase Private Flood Insurance on FHA-insured Mortgages for Properties located in SFHAs to satisfy the mandatory purchase requirement under the FDPA. After reviewing and considering the received public feedback, HUD published a final rule in the Federal Register on November 21, 2022, to revise FHA regulations. This ML updates the Handbook 4000.1 requirements to accord with the published final rule.

Mortgagees should note not all Private Flood Insurance policies permitted under the Biggert-Waters Act meet FHA requirements. HUD has established a unique compliance aid for Private Flood Insurance policies to reflect FHA requirements and legal authority.

Summary of Changes

This ML updates guidance for the Acceptance of Private Flood Insurance in the following sections of Handbook 4000.1:

- Origination through Post-Closing Endorsement (II.A)
 - General Property Eligibility (II.A.1.b.iv(A))
 - New Construction – Site Considerations (II.A.8.i.vii(A))

Mortgagee Letter 2022-18, Continued

- Condominiums (II)
 - Requirements for Units in Approved Condominium Projects – Insurance (II.A.8.p.ii(F))
 - Single Unit Approval – Insurance Coverage (II.A.8.p.iii(D)(8))
 - Condominium Project Approval (II.C)
- Title I Property Improvements and Manufactured Homes (II.E)
 - Manufactured Home Loan Eligibility and Purpose (II.E.4.a.ii)
- Servicing (III.A)
 - Insurance Coverage Administration (III.A.1.h)
 - FHA-HAMP Loan Modification Provisions (III.A.2.k.v(D))
 - Non-Monetary Default (III.A.2.p)
- Claims (IV)
 - Computation of Claim Amount for Title II Claims (IV.A.2.a.ii)
 - Calculation of Insurance Claim Payment for Title I Property Improvements (IV.C.1.c)

For HECMs, this ML updates Handbook 4235.1 REV-1in:

- Chapter 3. Property Analysis
 - Replaces subsection Requirements for maintaining flood insurance coverage (3-4H.)
- Chapter 8. Assignments
 - Updates subsection Assignment Insurance Options (8-2D.)
- Chapter 9. HUD Servicing
 - Adds subsection Flood Insurance (9-6F.)

**FHA Single
Family Housing
Policy
Handbook
4000.1**

The policy changes will be incorporated into Handbook 4000.1 as follows:

General Property Eligibility (II.A.1.b.iv(A))

(1) Special Flood Hazard Areas

**Origination
Through Post-
closing/
Endorsement**

The Mortgagee must determine if a Property is located in a Special Flood Hazard Area (SFHA) as designated by the Federal Emergency Management Agency (FEMA). The Mortgagee must obtain flood zone determination services, independent of any assessment made by the Appraiser, to cover the Life of the Loan Flood Certification.

A Property is not eligible for FHA insurance if:

- a residential building and related improvements to the Property are located within any SFHA Zone beginning with the letter A, a Special Flood Hazard Area, or any Zone beginning with the letter V, a Coastal High Hazard Area, and insurance under the National Flood Insurance Program (NFIP) is not available in the community; or the improvements are, or are proposed to be, located within the Coastal Barrier Resources System (CBRS).

To be eligible for FHA insurance, a Property located in an SFHA must be in a community that participates in the National Flood Insurance Program (NFIP) and has NFIP available, regardless of whether the Borrower obtains NFIP coverage.

(a) Flood Insurance

(i) Definitions

Flood Insurance refers to insurance provided by a National Flood Insurance Program (NFIP) or a Private Flood Insurance (PFI) policy that covers physical damage by floods.

A National Flood Insurance Program (NFIP) policy refers to insurance managed by the Federal Emergency Management Agency (FEMA) that covers physical damage by floods.

A Private Flood Insurance (PFI) policy refers to insurance provided by a private insurance carrier that covers physical damage by floods.

(ii) Standard

(A) Eligible Properties

If the property improvements (dwelling and related structures/equipment essential to the value of the Property and subject to flood damage) are located in an area designated by FEMA as an SFHA and NFIP insurance is available in that community, the Mortgagee must ensure the Borrower obtains and maintains Flood Insurance.

(B) Required Flood Insurance Coverage

For Properties located within an SFHA, Flood Insurance must be maintained for the life of the Mortgage in an amount at least equal to the lowest of the following:

- 100 percent replacement cost of the insurable value of the improvements, which consists of the development or project cost less estimated land cost;
- the maximum amount of NFIP insurance available with respect to the particular type of Property; or
- the outstanding principal balance of the Mortgage.

(C) Requirements for PFI

If the Borrower purchases a PFI policy in lieu of an NFIP policy, the Mortgagee must ensure the PFI policy meets the following requirements:

- is 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 to be insured is located, by the insurance regulator of the state or jurisdiction; or, in the case of a policy of difference in conditions, multiple peril, 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;
- provides Flood Insurance coverage that is at least as broad as the coverage provided under a standard Flood Insurance policy under the NFIP for the particular type of property, including when considering exclusions and conditions offered by the insurer;
- includes deductibles that are no higher than the specified maximum, and includes similar non-applicability provisions, as under a standard flood insurance policy under the NFIP;
- includes a requirement for the insurer to provide written notice 45 Days before cancellation or non-renewal of Flood Insurance coverage to the Borrower and the Mortgagee. In cases where the Mortgagee has assigned the loan to HUD, the insurer must provide notice to HUD and, where applicable, to the Borrower;
- includes information about the availability of Flood Insurance coverage under the NFIP;
- includes a mortgage interest clause similar to the clause contained in a standard Flood Insurance policy under the NFIP;
- includes a provision requiring the Borrower to file suit no later than one year after the date of a written denial for all or part of a claim under the policy; and
- contains cancellation provisions that are as restrictive as the provisions contained in a standard Flood Insurance policy under the NFIP.

(iii) Private Flood Insurance Policy Compliance Aid

(A) Definition

The Private Flood Insurance (PFI) Policy Compliance Aid is the statement: “This policy meets the definition of private flood insurance contained in 24 CFR 203.16a(e) for FHA-insured mortgages.”

(B) Standard

The PFI Policy Compliance Aid may be made by the insurance provider, attesting that a PFI policy meets the [requirements of Flood Insurance](#). The Mortgagee may rely on the PFI Policy Compliance Aid to determine whether a PFI policy meets the Flood Insurance requirements. A Mortgagee may not reject a policy solely because it is not accompanied by a PFI Policy Compliance Aid.

(iv) Required Documentation

For Properties located within an SFHA, the Mortgagee must include in the Case Binder:

- a Life of Loan Flood Certification for all Properties;
- if applicable, include a:
 - FEMA Letter of Map Amendment (LOMA);
 - FEMA Letter of Map Revision (LOMR); or
 - FEMA NFIP Elevation Certificate ([FEMA Form 086-0-33](#)); and
- a copy of the certificate of Flood Insurance or complete copy of the Flood Insurance policy, if required.

(v) Required Reporting

The Mortgagee must report the required Flood Insurance information in the insurance application screen in FHAC.

(b) Eligibility for New Construction in SFHAs

If any portion of the dwelling, related Structures or equipment essential to the value of the Property and subject to flood damage is located within an SFHA, the Property is not eligible for FHA mortgage insurance unless the Mortgagee:

- obtains from FEMA a final LOMA or LOMR that removes the Property from the SFHA; or
- obtains a FEMA NFIP Elevation Certificate ([FEMA Form 086-0-33](#)). The Elevation Certificate must document that the lowest

floor including the basement of the residential building, and all related improvements/equipment essential to the value of the Property, is built at or above the 100-year flood elevation in compliance with the NFIP criteria; and

- ensures that Flood Insurance is obtained.

(c) Eligibility for Existing Construction in SFHAs

When any portion of the residential improvements is determined to be located within an SFHA, Flood Insurance must be obtained.

(d) Eligibility for Condominiums in SFHAs

The Mortgagee must ensure the Condominium Association obtains Flood Insurance on buildings located within the SFHA. The Flood Insurance coverage must protect the interest of the Borrowers who hold title to an individual unit, as well as the common areas of the Condominium Project.

(e) Eligibility for Manufactured Housing in SFHAs

The finished grade level beneath the Manufactured Home must be at or above the 100-year return frequency flood elevation. If any portion of the dwelling, related Structures, or equipment essential to the Property Value and subject to flood damage for both new and existing Manufactured Homes is located within an SFHA, the Property is not eligible for FHA mortgage insurance unless the Mortgagee:

- obtains a FEMA issued LOMA or LOMR that removes the Property from the SFHA; or
- obtains a FEMA NFIP Elevation Certificate ([FEMA Form 086-0-33](#) showing that the finished grade beneath the Manufactured Home is at or above the 100-year return frequency flood elevation; and
- ensures that Flood Insurance is obtained.

(f) Restrictions on Property Locations within Coastal Barrier Resources System

In accordance with the [Coastal Barrier Resources Act](#), a Property is not eligible for FHA mortgage insurance if the improvements are or are proposed to be located within the [Coastal Barrier Resources System](#).

**FHA Single
Family Housing
Policy
Handbook
4000.1**

The policy changes will be incorporated into Handbook 4000.1 as follows:

Site Considerations (II.A.8.i.vii(A))

(5) Flood Hazard Areas

**New
Construction**

If any portion of the dwelling, related Structures, or equipment essential to the value of the Property is located within an SFHA and subject to flood damage, the Mortgagee must reject the Property, unless:

- a final Letter of Map Amendment (LOMA) or final Letter of Map Revision (LOMR) that removes the Property from the SFHA is obtained from the Federal Emergency Management Agency (FEMA); or
- the Mortgagee obtains a FEMA NFIP Elevation Certificate ([FEMA Form 086-0-33](#)) that documents that the lowest floor (including the basement) of the residential building and all related improvements/equipment essential to the value of the Property are built at or above the 100-year flood elevation in compliance with the NFIP criteria. The Mortgagee must ensure that the Elevation Certificate is completed based on finished construction.

The Mortgagee must include the LOMA, LOMR, or FEMA NFIP Elevation Certificate ([FEMA Form 086-0-33](#)) with the case when it is submitted for endorsement.

The Mortgagee must ensure that Flood Insurance is obtained when a FEMA NFIP Elevation Certificate ([FEMA Form 086-0-33](#)) documents that the Property remains located within an SFHA.

**FHA Single
Family Housing
Policy
Handbook
4000.1**

The policy changes will be incorporated into Handbook 4000.1 as follows:

Insurance (II.A.8.p.ii(F))

(3) Flood Insurance

Condominiums

(a) Standard

Flood Insurance for Condominiums must meet the requirements in [Flood Insurance](#).

The Mortgagee must verify that the Approved Condominium Project located in a Special Flood Hazard Area (SFHA) continues to meet the [Flood Insurance requirements in the Condominium Project Approval section](#) (II.C.2.c).

The insurance policies must list the Condominium Association as the named insured, or, in the case of an affiliated Approved Condominium Project or Condominium Association, the name of the affiliated Approved Condominium Project or Condominium Association may be listed as a named insured.

(b) Required Documentation

The Mortgagee must submit:

- form [HUD-9991](#);
- if applicable, the Letter of Map Amendment (LOMA), Letter of Map Revision (LOMR), or a [FEMA NFIP Elevation Certificate \(FEMA Form 086-0-33\)](#); and
- if applicable, the certificate of insurance or a complete copy of the [Flood Insurance](#) policy.

Insurance Coverage (II.A.8.p.iii(D)(8))

(e) Flood Insurance

(i) Standard

The Mortgagee must ensure that the Flood Insurance for a Condominium Unit meets the requirements in/under [Flood Insurance \(II.A.1.b.iv\(A\)\(1\)\(a\)\)](#) for an [FHA-insured Mortgage](#).

The Mortgagee must verify that Units in a Condominium Project located in a Special Flood Hazard Area meet the [Flood Insurance requirements in the Condominium Project Approval section \(II.C.2.c\)](#).

(ii) Required Documentation

The Mortgagee must submit form [HUD-9991](#) and the required documentation in [Condominium Project Approval \(II.C.2.c.viii\(B\)\(3\)\)](#).

**FHA Single
Family Housing
Policy
Handbook
4000.1**

The policy changes will be incorporated into Handbook 4000.1 as follows:

Flood Insurance (Existing Construction) (II.C.2.c.vii(D))

(1) Standard

**Condominium
Project
Approval**

[Flood Insurance for Condominiums](#) must meet the requirements in [Flood Insurance \(II.A.1.b.iv\(A\)\(1\)\(a\)\)](#).

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The Condominium Association must have Flood Insurance in place for **property improvements** in the Condominium Project that are located within Special Flood Hazard Areas (SFHA) including “A” or “V” zones, which are determined by the Federal Emergency Management Agency (FEMA).

The Condominium Association must have Flood Insurance for all **Condominium** Units in buildings that are located in an SFHA.

The Condominium Project must be located in a community that participates in the National Flood Insurance Program (NFIP) and has NFIP available, regardless of whether the Condominium Association obtains NFIP coverage. Coverage must be equal to the replacement cost of the covered improvements or the NFIP maximum per **Condominium** Unit multiplied by the number of **Condominium** Units, whichever is less.

(2) Required Documentation

The following documentation must be submitted:

- form [HUD-9992](#);
- FEMA flood map with the Condominium Project location clearly marked;
- if applicable, the Letter of Map Amendment (LOMA), Letter of Map Revision (LOMR), or **FEMA NFIP Elevation Certificate (FEMA Form 086-0-33)**; and
- if applicable, the certificate of insurance or a complete copy of the **Flood Insurance** policy.

Special Flood Hazard Areas (II.C.2.c.viii(B))

(1) Complete Condominium Project

If any portion of the Structures or equipment essential to the value of the Condominium Project is located within an SFHA, then the Condominium Project is not eligible for Condominium Project Approval, unless the Condominium Project:

- obtains a final LOMA or final LOMR from FEMA that removes the Property from the SFHA; or
- obtains a FEMA **NFIP** Elevation Certificate ([FEMA Form 086-0-33](#)). The Elevation Certificate must document that the lowest floor, including the basement of the residential building(s), and all related improvements/equipment essential to the value of the Property are built at or above the 100-year flood elevation in compliance with the NFIP criteria, and **Flood Insurance** is obtained.

(2) Manufactured Housing

If any portion of the Structures, or equipment essential to the value of the Manufactured Housing Condominium Project for both new and existing Manufactured Homes is located within an SFHA, the Property is not eligible for FHA mortgage insurance unless the following is submitted:

- a FEMA issued LOMA or LOMR that removes the Property from the SFHA; or
- a FEMA NFIP Elevation Certificate ([FEMA Form 086-0-33](#)) showing that the finished grade beneath the Manufactured Home is at or above the 100-year return frequency flood elevation, and Flood Insurance is obtained.

(3) Required Documentation

The following documentation must be submitted:

- if applicable, FEMA LOMA;
- if applicable, FEMA LOMR; or
- if applicable, FEMA NFIP Elevation Certificate FEMA Form 086-0-33.

**Single Family
Housing Policy
Handbook
4000.1**

**Title I Insured
Programs**

The policy changes will be incorporated into Handbook 4000.1 as follows:

Manufactured Home Loan Eligibility and Purpose (II.E.4.a.ii)

(G) General Property Eligibility

(4) Special Flood Hazard Areas

The Lender must determine if a Property is located in a Special Flood Hazard Area (SFHA) as designated by the Federal Emergency Management Agency (FEMA).

The Lender must obtain flood zone determination services, independent of any assessment made by the Appraiser, to cover the Life of the Loan Flood Certification.

Flood Insurance is required when any portion of the home site or residential improvement including Structures or equipment essential to the value is located in an SFHA identified by FEMA using the Life of the Loan Flood Certification, and must be maintained for the life of the insured Loan.

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A Property is not eligible for FHA insurance if a home site on which a Manufactured Home is placed is:

- located within SFHA Zone V, a Coastal High Hazard Area; or
- located within SFHA Zone A and insurance under the NFIP is not available in the community; or
- proposed to be located within a CBRS.

A Property may be eligible for FHA insurance if a home site on which the Manufactured Home is placed is located in an SFHA if:

- a FEMA issued Letter of Map Amendment (LOMA) or Letter of Map Revision (LOMR) removes the Property from the SFHA; or
- a FEMA NFIP Elevation Certificate ([FEMA Form 086-0-33](#)) shows the finished grade beneath the Manufactured Home is at or above the 100-year return frequency flood elevation.

To be eligible for FHA insurance, a Property located in an SFHA must be in a community that participates in the National Flood Insurance Program (NFIP) and has NFIP available, regardless of whether the Borrower obtains NFIP coverage.

(5) Flood Insurance

(a) Standard

Flood Insurance is required if the Property to be improved is secured and is located in a FEMA designated flood hazard area.

The amount of insurance must be no less than the unpaid balance due on the Title I Loan, and the Lender must be named as the loss payee.

Prior to closing, Lenders must inform Borrowers of the requirement to have or obtain adequate Flood Insurance as a condition of closing for Properties where any portion of the Property (including but not limited to the dwelling and related Structures or equipment essential to the value of the Property and subject to flood damage) is located in an SFHA.

Flood Insurance must be maintained for the life of the insured Loan.

(b) Required Documentation

The Lender must obtain the Life of the Loan Flood Certification indicating whether or not the home site is located within an SFHA.

When the home site is located in an SFHA, the Lender must provide HUD a copy of the pages from the Flood Insurance policy showing the coverage amount required and reflecting the Lender as the loss payee.

**Single Family
Housing Policy
Handbook
4000.1**

**Servicing and
Loss Mitigation**

The policy changes will be incorporated into Handbook 4000.1 as follows:

Insurance Coverage Administration (III.A.1.h)

ii. Flood Insurance

(a) Standard

The Mortgagee must review all Properties annually to determine if the Property is located within a Special Flood Hazard Area (SFHA).

For Properties located within an SFHA that are required to carry Flood Insurance, the Mortgagee must:

- ensure that Flood Insurance is in force for the life of the Mortgage; and
- review annually that the Property carries sufficient Flood Insurance.

(b) Required Documentation

The Mortgagee must include updated Flood Insurance information for Properties where Flood Insurance is required in the Servicing and Claims File.

FHA-HAMP Loan Modification Provisions (III.A.2.k.v(D))

(3) Modified Loan Term

The Mortgagee must re-amortize the total unpaid amount due over 360 months from the due date of the first installment required under the modified FHA-insured Mortgage. The term may be less than 360 months if:

- requested by the Borrower; and
- a term that is less than 360 does not result in the modified PITI being greater than the target monthly payment.

The Mortgagee must ensure that Hazard Insurance and Flood Insurance, where required, are updated for the modified mortgage amount.

Non-Monetary Default (III.A.2.p)

iii. Hazard and Flood Insurance

If the Borrower fails to maintain adequate Hazard and/or Flood Insurance coverage when it is stated as an obligation in the Mortgage, the Mortgagee may advance funds or force-place insurance as follows.

(A) Mortgagee Advances

The Mortgagee may advance the funds to pay the renewal premiums. The Mortgagee must renew the same type of policy and the same coverage carried previously by the Borrower.

(B) Force-Placed Insurance

If Borrowers fail to renew the Hazard and/or Flood Insurance coverage when required, the Mortgagee may force-place Hazard and/or Flood Insurance where consistent with federal regulations. While the Mortgagee may, at its discretion, obtain more coverage than is necessary to protect the Mortgagee's interest, HUD limits its reimbursement of these [premiums](#).

If the Mortgagee force-places a Private Flood Insurance (PFI) policy to satisfy the mandatory Flood Insurance purchase requirement, the PFI must meet the requirements for [Flood Insurance](#) (III.A.1.h.ii).

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Housing Policy
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4000.1**

The policy changes will be incorporated into Handbook 4000.1 as follows:

Computation of Claim Amount (IV.A.2.a.ii)

(F) Hazard and Flood Insurance Premiums

HUD will reimburse the Mortgagee for hazard insurance premiums and flood insurance premiums paid to protect the Mortgagee's interest up until the date the deed to the Secretary is filed for record, so long as the hazard insurance and Flood Insurance premiums were paid in accordance with HUD guidance.

If the Mortgagee force-places a Private Flood Insurance (PFI) policy to satisfy the mandatory Flood Insurance purchase requirement, the PFI must meet the requirements for [Flood Insurance](#) (III.A.1.h.ii).

Title II Claims

(1) Calculating the Hazard and Flood Insurance Premium Refund

If the amount of the actual premium refund is not known at the time Part B of form HUD-27011 is prepared, the Mortgagee must calculate an estimate on a “short rate” basis as follows:

- determine the number of Days the policy was in effect, from the effective date of the policy to the earlier of the cancellation date or the date the deed to the Secretary was filed for record (See Appendix 8.b Julian Date Calendar of the [Claim Filing Technical Guide](#));
- use the Short Rate Method Table in Appendix 8.a of the [Claim Filing Technical Guide](#) to determine the percentage of the premium utilized, and subtract this figure from 100 to determine the percentage of premium remaining; and
- multiply the percentage of premium remaining by the total premium to determine the estimated amount of the premium refund.

(a) Actual Hazard and Flood Insurance Premium Refund More than Estimated Refund

If the actual premium return is \$10 or more than the Mortgagee’s estimated amount, the Mortgagee must file a supplemental remittance.

(b) Actual Hazard and Flood Insurance Premium Less than Estimated Refund

If the actual premium return is less than the Mortgagee’s estimated refund, the Mortgagee may request a refund by:

- filing a supplemental claim form; and
- providing a copy of the insurance carrier’s statement of the return premium.

(2) Required Documentation

The Mortgagee must include the refund amount or estimated refund amount in Item 109, Part B of form HUD-27011, and include in the “Mortgagee’s comments” section the amount and whether this amount is actual or estimated.

(3) Claims without Estimated Hazard Insurance and Flood Insurance Premium Refunds or Where No Refund Was Received

The Mortgagee may submit a Part B claim without an estimated hazard or flood insurance premium refund, provided the Mortgagee includes documentation to HUD demonstrating:

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- that the insurer remitted the refund to the Borrower; or
- that the insurer has a policy of not remitting funds to the Mortgagee in that jurisdiction.

If the Mortgagee submits a Part B claim with an estimated hazard **or flood** insurance premium refund, but the refund was not received, the Mortgagee may submit a supplemental claim for reimbursement of the estimated hazard **or flood** insurance premium refund entered on line 109 of the Part B claim, provided the Mortgagee includes documentation to HUD demonstrating:

- that the insurer remitted the refund to the Borrower; or
- that the insurer has a policy of not remitting funds to the Mortgagee in that jurisdiction.

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Title I Claims for Property Improvements

Calculation of Insurance Claim Payment (IV.C.1.c)

i. Reserve Account

Reserve Account refers to 10 percent of the amount disbursed, advanced, or expended by the Lender in originating or purchasing eligible Loans registered for insurance under Title I, less the amount of all insurance claims approved for payment in connection with losses on such Loans.

The claim payment is calculated as 90 percent of the valid claim amount, not to exceed the amount remaining in a Lender's insurance reserve account.

A valid claim includes:

- the unpaid loan obligation;
- interest on the unpaid loan obligation;
- uncollected court costs;
- attorney's fees;
- expenses for recording assignments; and
- the cost of **force-placed Flood Insurance where required.**

HECM Origination

Handbook 4235.1 REV-1 Chapter 3: Property Analysis

3-4 Eligible Properties

(H) Special Flood Hazard Areas

The Mortgagee must determine if a Property is located in a Special Flood Hazard Area (SFHA) as designated by the Federal Emergency Management Agency (FEMA). The Mortgagee must obtain flood zone determination services, independent of any assessment made by the Appraiser, to cover the Life of the Loan Flood Certification.

A Property is not eligible for FHA insurance if:

- a residential building and related improvements to the Property are located within any SFHA Zone beginning with the letter A, a Special Flood Hazard Area, or any Zone beginning with the letter V, a Coastal High Hazard Area, and insurance under the National Flood Insurance Program (NFIP) is not available in the community; or
- the improvements are, or are proposed to be, located within the Coastal Barrier Resources System (CBRS).

To be eligible for FHA insurance, a Property located in an SFHA must be in a community that participates in the National Flood Insurance Program (NFIP) and has NFIP available, regardless of whether the Borrower obtains NFIP coverage.

(a) Flood Insurance

(i) Definitions

Flood Insurance refers to insurance provided by an NFIP or Private Flood Insurance (PFI) policy that covers physical damage by floods.

A National Flood Insurance Program (NFIP) policy refers to insurance managed by FEMA that covers physical damage by floods.

A Private Flood Insurance (PFI) policy refers to insurance provided by a private insurance carrier that covers physical damage by floods.

(ii) Standard

(A) Eligible Properties

If the property improvements (dwelling and related structures/equipment essential to the value of the Property and subject to flood damage) are located in an area designated by FEMA as an SFHA and NFIP insurance is available in that community, the Mortgagee must ensure the Borrower obtains and maintains Flood Insurance.

(B) Required Flood Insurance Coverage

For Properties located within an SFHA, Flood Insurance must be maintained for the life of the HECM in an amount at least equal to the lowest of the following:

- 100 percent of the replacement cost of the insurable value of the improvements;

- the maximum amount of NFIP insurance available with respect to the type of Property; or
- the outstanding principal balance of the Mortgage.

Where the outstanding principal balance of the Mortgage is used to determine the amount of Flood Insurance coverage, Flood Insurance must be adjusted each renewal cycle to cover an amount at least equal to the outstanding principal balance at the end of the insurance coverage period.

(C) Requirements for PFI

If the Borrower purchases a PFI policy in lieu of an NFIP policy, the Mortgagee must ensure the PFI policy meets the following:

- is 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 to be insured is located, by the insurance regulator of the State or jurisdiction; or, in the case of a policy of difference in conditions, multiple peril, 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;
- provides Flood Insurance coverage that is at least as broad as the coverage provided under a standard Flood Insurance policy under the NFIP for the particular type of property, including when considering exclusions and conditions offered by the insurer;
- includes deductibles that are no higher than the specified maximum, and includes similar non-applicability provisions, as under a standard flood insurance policy under the NFIP;
- includes a requirement for the insurer to provide written notice 45 days before cancellation or non-renewal of Flood Insurance coverage to the Borrower, or the non-Borrowing spouse where applicable, and the Mortgagee. In cases where the Mortgagee has assigned the loan to HUD, the insurer must provide notice to HUD and the Borrower or the non-Borrowing spouse where applicable.
- includes information about the availability of Flood Insurance coverage under the NFIP;

- includes a mortgage interest clause similar to the clause contained in a standard Flood Insurance policy under the NFIP;
- includes a provision requiring the Borrower to file suit not later than one year after the date of a written denial for all or part of a claim under the policy; and
- contains cancellation provisions that are as restrictive as the provisions contained in a standard Flood Insurance policy under the NFIP.

(iii) Private Flood Insurance Policy Compliance Aid

(A) Definition

The Private Flood Insurance (PFI) Policy Compliance Aid is the statement: “This policy meets the definition of private flood insurance contained in 24 CFR 203.16a(e) for FHA-insured mortgages.”

(B) Standard

The PFI Policy Compliance Aid may be made by the insurance provider, attesting that a PFI policy meets the requirements of Flood Insurance in 4235.1 Chapter 3-4H-. The Mortgagee may rely on the PFI Policy Compliance Aid to determine whether a PFI policy meets the Flood Insurance requirements. A Mortgagee may not reject a policy solely because it is not accompanied by a PFI Policy Compliance Aid.

(iv) Required Documentation

For Properties located within an SFHA, the Mortgagee must include in the case binder:

- a Life of Loan Flood Certification for all Properties;
- if applicable, a:
 - FEMA Letter of Map Amendment (LOMA);
 - FEMA Letter of Map Revision (LOMR); or
 - FEMA NFIP Elevation Certificate ([FEMA Form 086-0-33](#)); and
- a copy of the certificate of Flood Insurance or, if required, a complete copy of the Flood Insurance policy.

(v) Required Reporting

The Mortgagee must report the required Flood Insurance information in the insurance application screen in FHAC.

(b) Eligibility for Existing Construction in SFHAs

When any portion of the residential improvements is determined to be located within an SFHA, Flood Insurance must be obtained.

(c) Eligibility for Condominiums in SFHAs

The Mortgagee must ensure the Condominium Association has Flood Insurance on buildings located within the SFHA. The Flood Insurance coverage must protect the interest of the Borrowers who hold title to an individual unit, as well as the common areas of the Condominium Project.

(d) Eligibility for Manufactured Housing in SFHAs

The finished grade level beneath the Manufactured Home must be at or above the 100-year return frequency flood elevation. If any portion of the dwelling and related Structures or equipment essential to the value of the Property for both new and existing Manufactured Homes is located within an SFHA and subject to flood damage, the Property is not eligible for FHA mortgage insurance unless the Mortgagee obtains:

- a FEMA issued LOMA or LOMR that removes the Property from the SFHA; or
- a FEMA NFIP Elevation Certificate ([FEMA Form 086-0-33](#)) showing that the finished grade beneath the Manufactured Home is at or above the 100-year return frequency flood elevation, and Flood Insurance is obtained.

(e) Restrictions on Property Locations within Coastal Barrier Resources System

In accordance with the [Coastal Barrier Resources Act](#), a Property is not eligible for FHA mortgage insurance if the improvements are located within the [Coastal Barrier Resources System](#).

(f) Mortgagee Review of Appraisal for SFHA

If any portion of the dwelling, related Structures, or equipment essential to the value of the Property and subject to flood damage are located within an SFHA, the Mortgagee must reject the Property, unless:

- a final LOMA or final LOMR that removes the Property from the SFHA is obtained from FEMA; or

- the Mortgagee obtains a FEMA NFIP Elevation Certificate ([FEMA Form 086-0-33](#)), that documents the lowest floor (including the basement) of the residential building and all related Structures or equipment essential to the value of the Property is built at or above the 100-year flood elevation in compliance with NFIP criteria. The Mortgagee must ensure the elevation certificate is completed based on finished construction.

The Mortgagee must include the LOMA, LOMR, or FEMA NFIP Elevation Certificate (FEMA Form 086-0-33) with the case when it is submitted for endorsement.

The Mortgagee must ensure that Flood Insurance is obtained when a FEMA NFIP Elevation Certificate (FEMA Form 086-0-33) documents the Property remains located within an SFHA.

**HECM
Assignment**

**Handbook
4235.1 REV-1
Chapter 8:
Assignments**

8-2. Assignment Insurance Option

D. In preparing to assign the Home Equity Conversion Mortgage (HECM), the Mortgagee must:

- provide a written notice to the Borrower of intent to assign the HECM to HUD;
- notify HUD of intent to assign by submitting an assignment request through Home Equity Reverse Mortgage Information Technology (HERMIT); and
- disburse to the Borrower any remaining funds withheld for Hazard Insurance and Flood Insurance, if applicable.

Technical assistance for initiating and submitting a Claim Type 22 assignment request is available in the HERMIT User Guide.

If the HECM is assigned to the Secretary, or if payments are made through a second HECM under the demand assignment process, the Secretary is not required to assume responsibility for property charge payments but will continue to administer payment of taxes for Borrowers from any funds available in an applicable Fully Funded Life Expectancy Set-Aside (LESA).

The written notice to the Borrower must state:

- the anticipated date of assignment;
- instructions to the Borrower for making requests for unscheduled or line-of credit payments to HUD after the assignment date;
- that, if applicable, taxes will continue to be paid from a Property Charge Set-Aside or available LESA funds after assignment;
- that after assignment the Borrower is responsible for payment of taxes where there is no Property Charge Set-Aside or available LESA funds; and

- that after assignment the Borrower is responsible for maintaining and paying for Hazard Insurance, and Flood Insurance if required, regardless of any funds remaining in a Property Charge Set-Aside or Fully Funded LESA.

**HECM
Servicing**

**Handbook
4235.1 REV-1
Chapter 9:
HECM
Servicing**

9-6. Establishing a Servicing Account

(F) Flood Insurance

(1) Standard

The Mortgagee must review all Properties annually to determine if the Property is located within a Special Flood Hazard Area (SFHA).

For Properties located within an SFHA, that are required to carry Flood Insurance, the Mortgagee must:

- ensure that Flood Insurance is in force for the life of the Mortgage; and
- review annually that the Property carries sufficient Flood Insurance.

Flood Insurance must be an amount at least equal to the lesser of:

- 100 percent of the replacement cost of the insurable value of the property improvements at the time of closing;
- the maximum amount of the National Flood Insurance Program (NFIP) insurance available with respect to the property improvements; or
- the outstanding principal balance of the HECM. Where the outstanding principal balance of the HECM is used to determine the amount of Flood Insurance coverage, the Flood Insurance must be adjusted each renewal cycle to cover an amount at least equal to the outstanding principal balance at the end of the insurance coverage period.

The Mortgagee must review annually if the Property is located within an SFHA, was located in an area that is no longer designated as an SFHA, or is now located in an SFHA due to FEMA's flood zone rezoning.

**Paperwork
Reduction Act**

The information collection requirements contained in this document have been approved by the Office of Management and Budget (OMB) under the Paperwork Reduction Act (PRA) of 1995 (44 U.S.C. 3501-3520) and assigned OMB control numbers 2502-0005; 2502-0059; 2502-0117; 2502-0189; 2502-0302; 2502-0306; 2502-0322; 2502-0358; 2502-0404; 2502-0414; 2502-0429; 2502-0494; 2502-0496; 2502-0524; 2502-0525; 2502-0527; 2502-0538; 2502-0540; 2502-0556; 2502-0561; 2502-0566; 2502-0570; 2502-0583; 2502-0584; 2502-0589; 2502-0595; 2502-0600, 2502-0610; and 2502-0611. In accordance with the PRA, HUD may not conduct or sponsor, and a person is not required to respond to, a collection of information unless the collection displays a currently valid OMB control number.

Questions

Any questions regarding this ML may be directed to the FHA Resource Center at 1-800-CALL-FHA. The FHA Resource Center is prepared to accept calls from persons who are deaf or hard of hearing, as well as individuals with speech and communication disabilities. Information on how to make an accessible phone call is available at <https://www.fcc.gov/consumers/guides/telecommunications-relay-services>.

Signature

Julia R. Gordon
Assistant Secretary for Housing -
FHA Commissioner
