Federal Emergency Management Agency
Federal Insurance Administration

MORTGAGE PORTFOLIO PROTECTION PROGRAM AGREEMENT (PART V)

Purpose
To enable the company to assist the mortgage lending and servicing industries in bringing mortgage portfolios into compliance with the flood insurance requirements of the Flood Disaster Protection Act of 1973.

Effective Date
October 1, 2012

Issued By
Federal Emergency Management Agency
Federal Insurance Administration
500 C Street, S.W. • Washington, D.C. 20472

Federal Emergency Management Agency
Federal Insurance Administration
Appendix A

Mortgage Portfolio Protection Program
Guidelines and Requirements

BACKGROUND

The Mortgage Portfolio Protection Program (MPPP) was introduced on January 1, 1991, as an additional tool, provided by the Federal Insurance Administration (FIA), to assist the mortgage lending and servicing industries, in response to their requests, in bringing their mortgage portfolios into compliance with the flood insurance requirements of the Flood Disaster Protection Act of 1973.

The MPPP is not intended to act as a substitute for the need for mortgagees to review all mortgage loan applications at the time of loan origination and comply with flood insurance requirements as appropriate.

It is expected that the proper implementation of the various requirements of this MPPP will result in mortgagors, following their notification of the need for flood insurance, to either show evidence of such a policy or contact their local insurance agent or appropriate Write Your Own (WYO) Company to purchase the necessary coverage. It is also intended that flood insurance policies be written under the MPPP only as a last resort, and only on mortgages whose mortgagors have failed to respond to the various notifications required by this MPPP.

REQUIREMENTS FOR PARTICIPATING IN THE MPPP

The following paragraphs represent the criteria and requirements that must be followed by all parties engaged in the sale of flood insurance under the National Flood Insurance Program (NFIP) Mortgage Portfolio Protection Program.

1. General

a. All mortgagors notified, in conjunction with this program, of their need to purchase flood insurance must be encouraged to obtain a Standard Flood Insurance Policy (SFIP) from their agent/producer or insurer.

b. When a mortgagee or a mortgage-servicing company discovers, at any time following loan origination that there is no evidence of flood insurance on a property in a Special Flood Hazard Area (SFHA), then the MPPP may be used by such lender/servicer to obtain (force-place) the required flood insurance coverage. The MPPP process can be accomplished with limited underwriting information and with special flood insurance rates.

c. In the event of a loss, the policy will have to be reformed if the wrong rate has been applied for the zone in which the property is located. Also, the amount of coverage may have to be changed if the building occupancy does not support that amount.

d. It will be the Write Your Own (WYO) Company's responsibility to notify the mortgagor of all coverage limitations at the inception of coverage and to impose those limitations that are applicable at the time of loss adjustment.

2. WYO Arrangement Article III – Fees

With the implementation of the MPPP, there is no change in the method of WYO Company allowance from that which is provided in the Financial Assistance/Subsidy Arrangement for all flood insurance written.

3. Use of WYO Company Fees for Lenders/Services or Others

a. No portion of the allowance that a WYO Company retains under the WYO Financial Assistance/Subsidy Arrangement for the MPPP may be used to pay, reimburse, or otherwise remunerate a lending institution, mortgage servicing company, or other similar type of company that the WYO Company may work with to assist in its flood insurance compliance efforts.

b. The only exception to this is a situation where the lender/servicer may be actually due a commission on any flood insurance policies written on any portion of the institution's portfolio because it was written through a licensed property insurance agent/producer on their staff or through a licensed insurance agency owned by the institution or servicing company.

4. Notification

a. WYO Company/Mortgagee – Any WYO Company participating in the MPPP must notify the lender or servicer, for which it is providing the MPPP capability, of the requirements of the MPPP. The WYO Company must obtain signed evidence from each such lender or servicer indicating their receipt of this information, and keep a copy in its files.

b. Mortgagee to Mortgagor – In order to participate in the MPPP, the lender (or its authorized representative, which typically will be the WYO Company providing the coverage through the MPPP) must notify the borrower of the following, at a minimum:

(1) The requirements of the Flood Disaster Protection Act of 1973;

(2) The flood zone location of the borrower's property;

(3) The requirement for flood insurance;

(4) The fact that the lender has no evidence of the borrower's having flood insurance;

(5) The amount of coverage being required and its cost under the MPPP; and

(6) The options of the borrower for obtaining conventionally underwritten flood insurance coverage and the potential cost benefits of doing so.

A more detailed discussion of the notification requirements is made a part of this program document in both Section 15 and as Addendums 1 and 2.

5. Eligibility

a. Type of Use – The MPPP will be allowed only in conjunction with mortgage portfolio reviews and the servicing of those portfolios by lenders and mortgage servicing companies. The MPPP is not allowed to be used in conjunction with any form of loan origination.

b. Type of Property – The standard NFIP rules apply, and all types of property eligible for coverage under the NFIP will be eligible for coverage under the MPPP.

6. Source of Offering

The force-placement capability will be offered by the WYO Companies only and not by the NFIP Servicing Agent.

7. Dual Interest

The policy will be written covering the interest of both the mortgagee and the mortgagor. The name of the mortgagor must be included on the Application Form. It is not, however, necessary to include the mortgagee as a named insured because the Mortgage Clause (section VII.Q. of the Dwelling Form and the General Property Form) affords building coverage to any mortgagee named as mortgagee on the Flood Insurance Application. If contents coverage for the mortgagee is needed, the mortgagee should be included as a named insured.

8. Term of Policy

NFIP policies written under the MPPP will be for a term of 1 year only (subject to the renewal notification process).

9. Coverage Offered

Both building and contents coverage will be available under the MPPP. The coverage limits available under the Regular Program will be $250,000 for building coverage and $100,000 for contents. If the WYO Company wishes to provide higher limits that are available to other occupancy types such as other residential or non-residential, it may do so only if it can indicate that occupancy type as appropriate. If the mortgaged property is in an Emergency Program community, then the coverage limits available will be $35,000 for building coverage and $10,000 for contents. Again, if the higher limits are desired for other types of property, then the building occupancy type must be provided at the inception of the policy or when that information may become available, but it must be prior to any loss.

10. Policy Form

The current SFIP Dwelling Form and General Property Form will be used, depending upon the type of structure insured. In the absence of building occupancy information, the Dwelling Form should be used.

11. Waiting Period

The NFIP rules for the waiting period and effective dates apply to the MPPP.

12. Premium Payment

The current rules applicable to the NFIP will apply. The lender or servicer (or payor) has the option to follow its usual business practices regarding premium payment, so long as the NFIP rules are followed.

13. Underwriting – Application

a. The MPPP will require less underwriting information than normally required under the standard NFIP rules and regulations. The MPPP data requirements for rating and processing are, at a minimum:

(1) Name and mailing address of insured (mortgagor; also see Dual Interest);

(2) Address of insured (mortgaged) property;

(3) Name and address of mortgagee;

(4) Mortgage loan number;

(5) Community name, number, map panel number and suffix, and program type (Emergency or Regular);

(6) NFIP flood zone where property is located (lender must determine, in order to determine if flood insurance requirements are necessary and to use

the MPPP);

(7) Occupancy type (so statutory coverage limits are not exceeded. This information may be difficult to obtain. Also see Coverage Offered.);

(8) Is the building walled and roofed? Yes or No;

(9) Is the building over water? No, Partially, or Entirely; and

(10) Amount of coverage.

b. No elevation certificates will be required as there will be no elevation rating.

14. Rates

See MPPP rate Table below.

MORTGAGE PORTFOLIO PROTECTION PROGRAM RATE AND INCREASED COST OF COMPLIANCE (ICC) TABLE[1, 2]

Zone	MPPP Rates per $100 of Building Coverage[3]	MPPP Rates per $100 of Contents Coverage[3]	ICC Premium for $30,000 Coverage[4,5]
Emergency Program Community	4.32	4.36	N/A
A Zones – All building & Occupancy Types, Except A99, AR, AR Dual Zones	4.32/2.19	4.36/2.10	$70
V Zones – All building & occupancy types	6.43/6.43	6.04/6.04	$70
A99 Zone, AR, AR Dual Zones	1.12/.67	1.49/.60	$5

[1] Add Federal Policy Fee and Probation Surcharge, if applicable, when computing the premium.

[2] MPPP polices are not eligible for Community Rating System premium discounts.

[3] Basic and additional insurance limits are shown on page Rate 1 of the Flood Insurance Manual.

[4] ICC coverage does not apply to contents-only policies or to individually owned condominium units insured under the Dwelling Form or General Property Form.

[5] The ICC premium is not eligible for the deductible discount. First calculate the deductible discount, then add in the ICC premium.

15. Policy Declarations Page Notification Requirements

In addition to the routine information such as, amounts of coverage, deductibles, and premiums that a WYO Company may place on the policy declarations page issued to each insured under the NFIP, the following messages are required:

a. This policy is being provided for you as it is required by Federal law as has been mentioned in the previous notices sent to you on this issue. Since your mortgage company has not received proof of flood insurance coverage on your property in response to those notices, we provide this policy at their request.

b. The rates charged for this policy may be considerably higher than those that may be available to you if you contact your local insurance agent/producer (or the WYO Company).

c. The amounts of insurance coverage provided in this policy may not be sufficient to protect your full equity in the property in the event of a loss.

d. You may contact your local insurance agent/producer (or WYO Company) to replace this policy with a conventionally underwritten SFIP, at any time, and typically at a significant savings in premium.

The WYO Company may add other messages to the declarations page and make minor editorial modifications to the language of these messages if it believes any are necessary to conform to the style or practices of that WYO Company, but any such additional messages or modifications must not change the meaning or intent of the above messages.

Since the amount of underwriting data obtained at the time of policy inception will typically be limited, the extent of any coverage limitations (such as when replacement coverage is not available or coverage is limited because the building has a basement or is considered an elevated building with an enclosure) will be difficult to determine. It is, therefore, the responsibility of the WYO Company to notify the mortgagor/insured of all coverage limitations at the inception of coverage and impose any that are applicable at the time of the loss adjustment.

16. Policy Reformation – Policy Correction

In the event that the premium payment received is not sufficient to purchase the amounts of insurance requested, the policy shall be deemed to provide only such insurance as can be purchased for the entire term of the policy for the amount of premium received. With two exceptions, where insufficient premium is discovered after a loss, the complete provisions for reduction of coverage limits or reformation are described in:

- Dwelling Form, section VII, paragraph G.; and

- General Property Form, section VII, paragraph G.

The property must be insured using the correct SFIP form in order for these two exceptions to apply.

The two exceptions are following and apply only when after a loss it is discovered that the premium is insufficient to provide the coverage requested:

- Any additional premium due will be calculated prospectively from the date of discovery; and

- The automatic reduction in policy limits is effective the date of discovery.

This will provide policyholders with the originally requested limits at the time of a claim arising before the date of discovery without paying any additional premium. Policyholders will then have 30 days to pay the additional

premium that is due for the remainder of the policy term, to restore the originally requested limits without a waiting period.

However, all claim payments will be based on the coverage limitations provided in accordance with the correct flood zone for the building location and not on the zone shown on the flood policy if it is in error.

When coverage is issued using an incorrect SFIP form, the policy is void and the coverage must be written under the correct form. The provisions of the correct SFIP form apply. The coverage limits must be reformed according to the provisions of the correct SFIP form and cannot exceed the coverage limits originally issued under the incorrect policy.

17. Coverage Basis – Actual Cash Value or Replacement Cost

There are no changes from the standard practices of the NFIP for these provisions. The coverage basis will depend on the type of occupancy of the building covered and the amount of coverage carried.

18. Deductible

A $1,000 deductible is applicable for policies written under the MPPP.

19. Federal Policy Fee

There is no change from the standard practice. The Federal Policy Fee in effect at the time the MPPP policy is written must be used.

20. Renewability

The MPPP policy is a 1-year policy. Any renewal of that policy can occur only following the full notification process that must take place between the lender (or its authorized representative) and the insured/mortgagor, when the insured/mortgagor has failed to provide evidence of obtaining a substitute flood insurance policy.

21. Cancellations

The NFIP Flood Insurance Manual rules for cancellation/nullification are to be followed, when applicable.

22. Endorsement

An MPPP policy may not be endorsed to convert it directly to a conventionally underwritten SFIP. Rather, a new policy application, with a new policy number, must be completed according to the underwriting requirements of the SFIP, as contained in the NFIP Flood Insurance Manual. The MPPP policy may be endorsed to assign it under rules of the NFIP. It may also be endorsed for other reasons such as increasing coverage.

23. Assignment to a Third Party

Current NFIP rules remain unchanged; therefore, an MPPP policy may be assigned to another mortgagor or mortgagee. Any such assignment must be through an endorsement.

24. Article XIII – Restriction on Other Flood Insurance

Article XIII of the Arrangement is also applicable to the MPPP and, as such, does not allow a company to sell other flood insurance that may be in competition with NFIP coverage. This restriction, however, applies solely to policies providing flood insurance. It also does not apply to insurance policies provided by a WYO Company in which flood is only 1 of several perils provided, or when the flood insurance coverage amounts are in excess of the statutory limits provided under the NFIP or when the coverage itself is of such a nature that it is unavailable under the NFIP, such as blanket portfolio coverage.

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Addendum 1

INITIAL PORTFOLIO REVIEW
MORTGAGOR NOTIFICATION PROCESS

Once it has been determined by the lender/servicer or its representative that flood insurance is needed on mortgages in the lender's portfolio, and there is no evidence of flood insurance, and it decides to use FIA's MPPP to assist in bringing the lender's portfolio into compliance with flood insurance requirements, then the following notification process must be used.

This process will consist of three initial notification letters. Each letter will contain certain messages, at a minimum, in the body of the letter. The lender/servicer (or their authorized representative) may add their own messages, make minor editorial modifications to the messages to conform to the style and practice of the WYO Company or lender, and structure the letter to their liking, but they may not alter the meaning or intent of the messages listed here for any of the letters.

Each letter will contain mandatory messages on one or more of the following items: (1) The requirements of the Flood Disaster Protection Act of 1973; (2) reminding the insured of the previous letters sent that resulted in the current flood insurance policy; (3) the high premiums on the current policy; (4) potentially inadequate coverage limits; (5) coverage limitations; and (6) the options available to the insured.

First Initial Notification Letter

The first letter is to be issued after the review of the lender's portfolio reveals the need for the flood insurance coverage and the absence of it. This letter must contain, at a minimum, the following messages:

1. "The Flood Disaster Protection Act of 1973, a Federal law, requires that flood insurance be purchased and maintained on mortgage loans for buildings (and their contents, if appropriate) for the life of the loan for buildings located in a Special Flood Hazard Area (SFHA) shown on a map published by FEMA. This applies to such loans from lending institutions that are under the jurisdiction of a Federal regulatory agency or instrumentality."

2. "We have determined that your property (building), on which we hold the mortgage loan, is located in an SFHA and, therefore, you are required by law to have a policy of flood insurance on that property."

    - This letter must then include language advising the mortgagor that in the event they wish to challenge the zone determination, they should provide written factual evidence supporting their challenge obtained from a community official or registered engineer, architect, or surveyor, stating the specifics of the location of the building and the reason for their challenge. The letter must include reference to the appeal process required in Section 524 of the National Flood Insurance Reform Act of 1994, and to the regulations

promulgated to establish the procedures and process for such review.

- The lender/servicer is reminded that since the Act places the responsibility of determining the flood zone location of each mortgaged property on the lender/servicer, he cannot discharge that responsibility by simply obtaining some form of self-certification from the mortgagor. If the lender wishes to change its original determination on the location of the mortgagor's property based upon information submitted by the mortgagor, the lender/servicer must convince itself, after reviewing that submission, that its original determination was in error and make any such change based on that review. He should not simply accept unsubstantiated allegations, from whatever source, as to the building's flood zone location. The ultimate responsibility for making such determinations under the statute rests with the mortgagee, not the mortgagor.

3. "There is no evidence in your mortgage loan file of your having a flood insurance policy on your property. In case this information is in error, please contact us at..."

4. "If you do not have a flood insurance policy on this property, you may wish to contact your local insurance agent (or WYO Company at ...)."

5. "If you do not respond within 45 days of this letter, either providing evidence of a flood insurance policy in effect on this property, or requesting that we provide you with such coverage, the necessary flood insurance coverage will be provided for you. In that event, since certain insurance underwriting information about your property that is necessary to determine the appropriate flood insurance rate for your policy would not have been obtained due to your not responding, the Federal government's Mortgage Portfolio Protection Program's flood insurance rates will have to be used. These rates may be considerably higher than those that could be obtained for you if you respond to this notice."

This letter, or an attachment, must also include such other information as: (1) the name of the lender/servicer, (2) the mortgage loan number, (3) the address of the property in question, (4) the flood zone in which the property has been determined to be located, (5) the amount of flood insurance being required, and (6) coverage limitations.

Second Initial Notification Letter

This letter will be sent 30 days following the first initial notification letter, if no response has been received from the mortgagor. It will contain, at a minimum, the following messages:

1. "About a month ago you were notified that Federal law requires all mortgages, such as yours, on properties determined to be located in a Special Flood Hazard Area, to be covered by a policy of flood insurance."

2. "That letter mentioned that if you did not respond positively within 45 days from that letter, it would be necessary to obtain a policy of flood insurance for you."

3. "This is to remind you that since you have not responded to the earlier notice as yet, and if you do not respond within the next 15 days (or the actual expiration date), flood insurance, as

mentioned previously, will be obtained on your property, on your behalf."

4. "In the event that you do not respond and the coverage must be obtained as mentioned, the cost of that coverage may be significantly higher than the premium that you could obtain if you were to contact your local insurance agent (or WYO Company at...).

Third and Final Initial Notification Letter

This letter must be sent to the mortgagor accompanying the flood insurance policy declarations page.

This letter must be sent as soon after the end of the 45 day notification period as possible, if no positive response has been received to the two previous notification letters. It must contain the following messages, at a minimum:

1. "This letter is to inform you that a policy of flood insurance has been obtained on your behalf, to cover the mortgage on your property, as required by the Flood Disaster Protection Act of 1973."

2. "You have been notified on two previous occasions explaining the circumstances surrounding your need to have flood insurance coverage and explaining your options, but to date no response has been received."

3. "Attached is the flood insurance policy purchased on your behalf and its accompanying declarations page that explains: the amount of coverage purchased on your behalf, its cost, some limitations to that coverage, and the options you may still wish to exercise to obtain similar coverage, but typically at a significantly lower cost."

4. "If you purchase another flood insurance policy and notify us, or contact us to request that we purchase a substitute policy under the NFIP for you, we will cancel this policy and issue you a refund for the unearned portion of the premium, if we deem that the other policy is acceptable to satisfy the requirements."

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Addendum 2

MPPP RENEWAL/EXPIRATION MORTGAGOR NOTIFICATION PROCESS

When an MPPP policy has been purchased and the expiration date of that policy is approaching the end of its 1-year term, and the insured has not requested or produced a substitute policy of flood insurance, the following notification process will be followed.

This process will consist of a total of three (or, at the lender's option, two) renewal MPPP letters. Each letter will contain certain required messages within the body of the letter. The lender/servicer (or their authorized representative) may add their own messages, make minor editorial modifications to the messages to conform to the style and practice of the WYO Company or lender, and structure the letter to their liking, but they may not alter the meaning or intent of the messages listed here for any of the letters.

Each letter will contain mandatory messages on one or more of the following items: (1) reminding the insured of the previous letters sent that resulted in the current flood insurance policy that is about to expire; (2) the requirements of the Flood Disaster Protection Act of 1973; (3) the high premiums on the current policy; (4) potentially inadequate coverage limits; (5) coverage limitations; and (6) the options available to the insured.

First MPPP Renewal/Expiration Notification Letter

The first MPPP Renewal/Expiration Notification Letter will be sent to the insured/mortgagor at least 45 days prior to the renewal/expiration of the MPPP policy. It will, at a minimum, contain the following messages:

1. "This letter is to notify you that the flood insurance policy that was required to be purchased on your property about a year ago is about to expire."

2. "When you were originally notified of the need for this coverage, it was explained that the Flood Disaster Protection Act of 1973, a Federal law, requires that flood insurance be purchased and maintained for the life of the loan, on mortgage loans for buildings (and their contents, if appropriate) located in a Special Flood Hazard Area shown on a map produced by the Federal Emergency Management Agency."

3. "The premium on the flood insurance policy currently in effect and written on your behalf, and due to expire, may be considerably higher than would be the case if you had responded to the suggestions contained in the previous notices sent you, recommending that you contact your local insurance agent (or the WYO Company at...), which you may still do, to obtain a conventionally underwritten Standard Flood Insurance Policy."

4. "As has been mentioned in previous notices, you may wish to replace this policy with a

conventionally underwritten Standard Flood Insurance Policy now, and benefit from rates that potentially are significantly lower than the rates being used with this policy."

5. "Failure to respond to this notice within 45 days (or by [date]) will result in this policy being renewed, and at rates that are most likely to be much higher than are otherwise available."

Second MPPP Renewal/Expiration Notification Letter

The requirement for the second MPPP Renewal/Expiration Notification Letter is optional on the part of the participating WYO Company. If such a company decides not to issue the second of the three notices (letters), then the third MPPP Renewal/Expiration Notification Letter required in the March 1, 1991, *Federal Register* will serve as the second and final notice required. The language of such a letter may be modified, if needed, to reflect the fact that only two such letters were sent.

Third and Final MPPP Renewal/Expiration Notification Letter

The third and final notice will be sent out as part of the renewed MPPP policy. The notice containing the following required messages may be sent as a cover letter or an attachment to the policy declarations page and policy itself, or the required messages may be included on the declarations page that accompanies the renewal policy. It must contain the following messages:

1. "Since you have not responded to our previous notices that your flood insurance policy, which is required by Federal law, was about to expire, we have renewed that policy for the next year."

2. "As has been previously explained, the Flood Disaster Protection Act of 1973, a Federal law, requires that flood insurance be purchased and maintained on mortgage loans for buildings (and their contents, if appropriate) for the life of the loan, for property located in a Special Flood Hazard Area shown on a map produced by the Federal Emergency Management Agency."

3. "The premium on this flood insurance policy just renewed may be considerably higher than would be the case if you had contacted your local insurance agent (or WYO Company at ...), which you may still do, to obtain a conventionally underwritten Standard Flood Insurance Policy."

4. "If you purchase another flood insurance policy and notify us, or contact us to request that we purchase a substitute policy under the NFIP for you, we will cancel this policy and issue you a refund for the unearned portion of the premium, if we deem that the other policy is acceptable to satisfy the requirements."

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Addendum 3

QUESTIONS AND ANSWERS: PORTFOLIO REVIEW CONSIDERATIONS

1. **What is the MPPP?**

   The MPPP is a tool for providing flood insurance coverage to properties which are part of a lending institution's mortgage portfolio when such properties have been determined to be in a Special Flood Hazard Area and therefore subject to the flood insurance purchase requirement mandated by Federal law.

2. **What is the first step in using the MPPP?**

   The MPPP is intended to be utilized only when the lender (or its representative) has reviewed its portfolio and determined which of the loans are on buildings located in a Special Flood Hazard Area (SFHA), and, therefore, in need of flood insurance.

3. **What source of information should the MPPP participant, or their authorized representative, be using in reviewing a loan portfolio, to determine flood zone location of the properties in question?**

   The flood insurance maps published by the Federal Emergency Management Agency (FEMA), augmented by other official documentation available from local officials or other sources, as may be deemed necessary, should be used.

   The Flood Disaster Protection Act of 1973, which imposes the flood insurance requirement, makes specific reference to "areas identified by the Secretary (since changed to Director [of FEMA]) as an area having special flood hazards". The National Flood Insurance Act of 1968, as amended, charged FEMA with the responsibility of identifying areas which have special flood hazards. Therefore, the official source of information that serves as the basis for identifying such areas is the maps published by FEMA.

4. **What if a source of information other than the FEMA maps is used as the basis for determining the flood zone location of properties?**

   The lender may be risking erroneous determinations, thereby potentially placing the lender in a position of a liability exposure, bad customer relations, and/or problems with its Federal regulatory agency or worse.

5. **Does it mean that, if the system used to make these flood zone determinations is not based on the FEMA maps, the system should not be used?**

   Due to the potential for problems as mentioned above, the lender must be careful as to the basis behind the system it uses to make these flood zone determinations. Also, since the lender must

keep evidence of the determination in every mortgage file, if that evidence doesn't reflect the map panel used to make the determination, the lender may have difficulty proving to its Federal regulatory agency or in court if the need arose, that the lender is complying with the law.

6. **What flood zone determination information should the lenders keep in each mortgagor's file to indicate evidence of compliance?**

   Pursuant to Section 528 of the National Flood Insurance Reform Act of 1994, FEMA developed a Standard Flood Hazard Determination Form (SFHDF) for use by lenders when determining, in the case of a loan secured by improved real estate or a mobile home, whether the building or mobile home is located in a special flood hazard area. The SFHDF contains a section for recording flood zone determination information. All lenders subject to the Reform Act will have to place a copy of the SFHDF in each mortgagor's file to indicate evidence of compliance.

7. **What version of the flood map should be used in conjunction with the MPPP portfolio review?**

   The FEMA map in effect at the time of the portfolio review is the map that must be used. The provisions of the Flood Disaster Protection Act of 1973 as amended by the Reform Act: (1) require the lender to notify the borrower that the borrower should obtain flood insurance, at the borrower's expense, if, at any time during the term of the loan, the lender determines the improved real estate or mobile home securing the loan is located in an area identified by FEMA as an area having special flood hazards and in which flood insurance is available but the property is not covered by flood insurance; and (2) require the lender to purchase coverage on behalf of the borrower if the borrower fails to purchase such flood insurance within 45 days after notification by the lender.

8. **Doesn't the fact that the MPPP was designed to assist lenders/servicers in bringing their portfolios into compliance with flood insurance requirements mean that they will be dealing with loans that can range from being very new to being many years old, and that the maps that may have been in effect at the time of the loan origination might not be readily available now?**

   Yes. However, this does not present a problem since, as mentioned in question 7 above, compliance with the Reform Act requires use of the map in effect at the time of the review rather than the map in effect at the time of the loan origination.

9. **Once the lender/servicer's portfolio has been reviewed and determinations have been made as to which properties need flood insurance, is there anything critical that the lender (or its representative) should consider before beginning the process of mailing the initial notices to their mortgagors?**

   The lender should consider how the mailing will be handled and the results of that mailing. There is a strong likelihood that once the mailings begin, a certain percentage of the mortgagor recipients of those notices will challenge the notices. Some of those challenges will be directed, in one way or another, to the lender/servicer, regardless of any instructions in the notices. The lender should therefore determine at the outset whether it wants the notices to be sent all at once, or sent in batches. The larger the volume, the more consideration the batch approach should be given.

Also, the lender needs to consider how it wants the review of its portfolio carried out. If the results of the review are provided to the lender all at the same time and the lender decides to send the notices to the mortgagors in batches, it may be exposing itself to additional liability. This could occur since the lender was aware of all the mortgages in its portfolio that needed flood insurance, but acted on only a certain number at a time. The lender, therefore, needs to consider having the portfolio review carried out in such a fashion that the results of each portion of that review are made available to the lender as soon as they are available from the party conducting the review, and are acted upon as soon as possible thereafter.

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Addendum 4

QUESTIONS AND ANSWERS: OTHER CONSIDERATIONS

1. What is the MPPP and what is it designed to do?

The MPPP is a tool made available to the lending and mortgage servicing industries that provides them with the capability to write flood insurance policies quicker and easier that will assist them with their efforts to bring their portfolios into compliance with flood insurance requirements.

2. Is the MPPP available to lenders for all their loans?

No. It may be used only in conjunction with loan portfolios. It may not be used as a compliance vehicle for loan originations.

3. Is the MPPP mandatory for lenders/servicers?

No. It is voluntary, but lenders/servicers that believe their loan portfolios may not be in compliance with flood insurance requirements are strongly encouraged to use it if they believe it could be helpful.

4. What are the benefits of the MPPP?

The specific benefits will vary with the category of participant as follows.

For lenders/servicers:

- Portfolio compliance with flood insurance requirements.
- Reduction or elimination of certain potential liability.
- Protection of equity (lender/servicer, borrower).

For WYO companies:

- Increased policy sales and fees.
- Increased lender/servicer client base.

For insurance agents:

- Increased policy sales and commissions.

5. Is it possible for WYO companies and insurance agents to benefit from the MPPP even if they don't directly participate in it?

Yes. Property insurance (fire and auto) is already being sold by insurance agents to many of these same borrowers because lenders require it in conjunction with home mortgages and auto loans. As a result, many agents already have established business relationships with their local lenders. These agents could alert these lenders to the availability of the MPPP and advise them as to how to proceed even if the agent was not going to directly participate.

At the same time the agent could offer to assist the lender with determining the flood zone location of the addresses of all new mortgage loan applications for that lender and ask, in return, for the opportunity to write all the flood insurance policies on those properties that are determined to need it. The notices that will be sent to the borrowers will generate inquiries and sales.

6. How will flood policies actually be sold under the MPPP?

Policies will be written through the insurance companies participating in FIA's Write Your Own (WYO) Program.

7. Will all the insurance companies participating in the WYO Program be writing policies under the MPPP?

Any WYO Company may write policies under the MPPP, but only those that traditionally have dealt with the lending industry participate in this Program. Any such company that does wish to participate must agree in writing to comply with the requirements of the MPPP.

8. Does FIA maintain and publish a list of the WYO companies that participate in the MPPP?

Yes. Such a list has been developed and is modified and republished as needed.

9. What is the first thing a lender/servicer should do if it wishes to utilize the MPPP?

The lender must review its loan portfolio and determine which of the properties are located in Special Flood Hazard Areas (SFHA).

10. When a lender/servicer decides to utilize the MPPP, must they use the MPPP to service their portfolio all at the same time?

No. Lenders/servicers should carefully analyze the pros and cons of phasing in their portfolio compliance effort. (See Addendum 3, question 9.)

11. Is use of the MPPP limited to only those properties located in SFHAs?

Yes.

12. What will happen if a policy is written through the MPPP, but the property is not located in an SFHA?

If no loss has occurred at the time the situation is discovered but the mortgagee wants the borrower to have flood insurance even though the property is not in an SFHA, the situation can be corrected by canceling the MPPP policy and rewriting the coverage under a conventional Standard Flood Insurance Policy (SFIP) with a refund of any premium overpayment. If such a situation is discovered after a flood loss has occurred, the claim will be honored. However, the MPPP policy would have to be cancelled and the coverage rewritten under a conventional SFIP with a refund of any premium overpayment. The loss should then be reported under the new policy number. Under both scenarios, the effective date of the conventional SFIP would be the same as that of the cancelled MPPP policy.

13. What differences are there between a flood policy sold under the traditional flood insurance program and one under the MPPP?

The actual policy and coverage are the same, but there are differences primarily in the areas of:

- Rates,
- A letter notification process to the borrowers,
- The underwriting information necessary.

14. What are the rate differences?

The rates under the MPPP are, on the average, several times those used under the traditional flood insurance program.

15. Why are the MPPP rates so high?

Because the borrower did not respond to the notices sent, key information necessary to underwrite the risk is not available. Therefore, it is necessary to assume that those properties have a very high risk and the rates charged reflect that risk.

16. Does the borrower have any option in avoiding the MPPP policy with its higher cost?

Yes. The borrower can simply contact a local insurance agent, obtain a conventionally underwritten flood insurance policy, and present it to the lender/servicer.

17. If a borrower pays off the mortgage loan, can the MPPP then be cancelled?

Yes, but any refund due the borrower will be paid on a pro-rata basis.

18. If the borrower or lender/servicer sells or assigns the mortgage to another borrower or lender/servicer, can the MPPP policy be assigned?

Yes. The Standard Flood Insurance Policy language allows for the assignment of all NFIP policies. Any such assignment of an NFIP policy must be done by way of an endorsement.

19. Must a WYO Company participating in the MPPP maintain copies of all its MPPP documents?

The companies are responsible for the data on each Application Form, in keeping with its normal practices. Although some of the data beyond that required does not have to be reported, the companies are still responsible for it. The WYO companies may use their normal business practices in determining which form they will use to retain data, forms, or other required information.

20. Who initiates the notification letter process required by the MPPP?

Lenders/servicers differ on how their force-placed hazard insurance notices are sent to their borrowers. Some lenders insist on sending such notices directly. Others let the insurance company, with whom the force-placed policies are written, send out the notices. Since the MPPP is a part of the NFIP, policies written through the MPPP must comply with all NFIP requirements, regardless of the entity that actually sends the notices.

21. Must the lender or WYO Company maintain copies of the notification letters?

The WYO Company is responsible for assuring that the letters are sent regardless of whether the company or the lender actually sends them. The WYO Company must maintain evidence that the letters are being sent. It will be the WYO Company's decision as to the form the evidence takes, such as paper copies, microfiche, computer images, or a record of addresses of the mortgagors to whom the letters were sent with an indication as to the date when those mortgagors were notified.

22. What does a WYO Company do if the information that FIA requires on the declarations page won't fit on that page?

The company may wish to include some of that information on the declarations page and some on an "endorsement." In such a case, it should indicate an endorsement number on the declarations page.

23. Does a policy declarations page have to be issued each time an MPPP policy is renewed?

Yes, and it must accompany the final renewal notification letter.

24. When an MPPP is renewed, can the same policy number that was assigned to the original MPPP policy be used?

Yes.

25. Will the rating credits that will be available in a community participating in the Community Rating System (CRS) apply to a policy written under the MPPP?

No.

26. The MPPP requirements call for the full map panel number and date to be obtained. What does the WYO Company do with that information since the NFIP Application Form in use today doesn't contain enough space to even capture all this information?

The WYO companies have never been required to use NFIP forms in the WYO program, but have been free to develop their own forms. They are, however, responsible for all required data, some of which must be reported and some of which isn't, but must be kept in the company files. The data requirements for the MPPP follow the same conditions. The full map panel number for that panel used to determine flood zone location and rate the policy is the one that must be captured and maintained. The majority of the maps, FEMA has published for many years, have the 10-digit number, suffix, and date for each panel. Some of the maps still in use have only the 6-digit community number and date. The 6-digit community number cannot be used when the 10-digit number exists.

27. Is contents coverage under the MPPP optional?

Yes. The lender must decide whether or not it will require contents coverage as part of the MPPP policy.

28. What is meant by the term "coverage limitations" that is mentioned in the MPPP materials?

"Coverage limitations" primarily means Actual Cash Value coverage instead of Replacement Cost coverage, when appropriate. It could also apply, however, to the situation where only an amount to cover the loan balance is purchased which may be insufficient to cover the full insurable value of the property. The WYO Company will have to determine what limitations may apply depending on the decisions of the lender/servicer as to how it wants to use the MPPP and the amount of underwriting information obtained.

29. The notification process contains standards for the letters being mailed and the MPPP policy being written such as 45, 30, and 15 days. Must these standards be strictly adhered to?

There are a number of standards similar to this in the NFIP. Some limited flexibility has been built into the actual implementation process through the underwriting review process that FIA uses with the companies.

30. May WYO companies, under the requirements of the MPPP, use any portion of the MPPP fee they retain for any purpose other than as a commission to an insurance agent or agency for their writing the policy, such as for flood zone determinations or the tracking of loans?

No.