MORTGAGE PORTFOLIO PROTECTION PROGRAM

I. BACKGROUND

The Mortgage Portfolio Protection Program (MPPP) was introduced on January 1, 1991, as an additional tool to assist the mortgage lending and servicing industries 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.

Proper implementation of the mandatory purchase requirements usually results in mortgagors, after their notification of the need for flood insurance, either showing evidence of such a policy, or contacting their insurance agent/producer or their insurer to purchase the necessary coverage. It is 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 the MPPP.

II. 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.

A. General

1. 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.

2. 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

MORTGAGE PORTFOLIO PROTECTION PROGRAM RATE AND INCREASED COST OF COMPLIANCE (ICC) [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	5.00	5.00	N/A
A Zones – All building & occupancy types, except A99, AR, AR Dual Zones	5.00 / 3.00	5.00 / 3.00	$70
V Zones – All building & occupancy types	11.00 / 11.00	11.00 / 11.00	$70
A99 Zone, AR, AR Dual Zones	1.12 / .67	1.42 / .60	$5

1 Include the Reserve Fund Assessment, Probation Surcharge, Homeowner Flood Insurance Affordability Act of 2014 (HFIAA) surcharge, and Federal Policy Fee, if applicable, when calculating the Total Amount Due.

2 MPPP policies are not eligible for Community Rating System premium discounts.

3 For basic and additional insurance limits, refer to the Rating section of this 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.

can be accomplished with limited underwriting information and with special flood insurance rates.

The MPPP process should not be used to increase coverage on an existing flood insurance policy.

NOTE: Duplicate coverage is not allowed under the NFIP provisions. Only one policy can be issued for building coverage.

3. 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.

4. 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.

B. 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.

C. Use of WYO Company Fees for Lenders/Servicers or Others

1. 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.

2. 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.

D. Notification

1. 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.

2. 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:

   a. The requirements of the Flood Disaster Protection Act of 1973;

   b. The flood zone location of the borrower's property;

   c. The requirement for flood insurance;

   d. The fact that the lender has no evidence of the borrower's having flood insurance;

   e. The amount of coverage being required and its cost under the MPPP; *and*

   f. 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 under "O. Policy Declarations Page Notification Requirements" on page MPPP 3.

E. Eligibility

1. 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.

2. 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.

F. Source of Offering

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

G. 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.

H. Term of Policy

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

I. 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, non-residential business, or other 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.

J. 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.

K. Waiting Period

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

L. 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.

M. Underwriting – Application

1. The MPPP will require less underwriting information than normally required under the standard NFIP rules and regulations. The MPPP requires the following data for rating and processing:

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

   b. Address of insured (mortgaged) property;

   c. Name and address of mortgagee;

   d. Mortgage loan number;

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

   f. 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);

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

   h. Is the building the insured's primary residence? Yes or No;

   i. Is the building walled and roofed? Yes or No;

   j. Is the building over water? No, Partially, or Entirely; *and*

   k. Amount of coverage.

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

N. Rates

See table on page MPPP 1.

O. 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:

1. 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.

2. 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).

3. 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.

4. 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.

P. Policy Reformation – Policy Correction

If the premium payment received is not sufficient to purchase the amounts of insurance requested, the policy shall provide only such insurance as can be purchased for the entire term of the policy for the amount of premium received.

The 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.

In all cases the property must be insured using the correct policy form before any claim payment may be made.

Three exceptions to the SFIP provisions apply when insufficient premium or incomplete rating information is discovered after a loss.

The first exception is that the required additional premium billed to the insured is for the current policy term only, instead of the current and, if applicable, one prior policy term.

The 2 exceptions below apply only to the discovery of a misrating that is the result of an incorrect flood zone or BFE.

1. Any additional premium due will be calculated prospectively from the date of discovery; *and*
2. The automatic reduction in policy limits is effective the date of discovery.

These 2 exceptions revise the requirement that the additional premium due and the reduction in policy limits go back to the effective date of the policy. Policyholders can now keep 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.

Q. 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.

R. Deductible

The deductible for the MPPP policy is $1,000 each for both building and contents if the building coverage is less than or equal to $100,000; if the building coverage is over $100,000, the deductible is $1,250, regardless of the insured building's construction date compared to the initial FIRM date. A contents-only policy will have a $1,000 deductible.

S. Reserve Fund Assessment

The Reserve Fund Assessment is applicable for policies written under the MPPP. The Reserve Fund Assessment is the calculated percentage of the Total Premium, excluding the Probation Surcharge, HFIAA surcharge, and Federal Policy Fee. The Reserve Fund Assessment percentage in effect at the time the MPPP policy is written must be used.

T. HFIAA Surcharge

The HFIAA surcharge is applicable for policies written under the MPPP. This fee is fully earned on the effective date of the policy, except as indicated in the Cancellation/Nullification and General Change Endorsement sections. This surcharge is not subject to earned commissions and, as such, is not considered part of the Total Premium. The HFIAA surcharge must, however, be added to the Total Premium in order to figure the Total Amount Due.

U. 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.

V. 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.

W. Cancellations

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

X. 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.

Y. 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.

Z. 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.

AA. Participating WYO Companies

A list of the WYO Companies that participate in the MPPP is available on FEMA's website at http://www.fema.gov/wyo_company.