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 various requirements of the MPPP usually results in mortgagors, after their notification of the need for flood insurance, either showing evidence of such a policy, or contacting their local insurance agent or appropriate Write Your Own (WYO) company 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.

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	3.39	3.42	N/A
A Zones - All building & occupancy types, except A99, AR, AR Dual Zones	3.39 / 1.71	3.42 / 1.63	75.00
V Zones - All building & occupancy types	5.05 / 5.05	4.74 / 4.74	75.00
A99 Zone, AR, AR Dual Zones	.87 / .51	1.16 / .46	6.00

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

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

[3]Basic and additional insurance limits are shown on page RATE 1.

[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.

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's 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 local agent.

2. When a mortgagee or a mortgage servicing company discovers, at any time following loan origination, that one or more of the loans in its portfolio is determined to be located in a Special Flood Hazard Area (SFHA), and that there is no evidence of flood insurance on such property(ies), 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 flat flood insurance rates.

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 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 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 will typically 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 in Section O.

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 desired, 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 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.

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 data than is normally required under the standard NFIP rules and regulations. The MPPP data requirements for rating, processing and reporting are, at a minimum:

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

   b. Address of insured (mortgaged) property,

   c. Community information (complete NFIP map panel number and date; program type, Emergency or Regular) countywide maps,

   d. Occupancy type (so statutory coverage limits are not exceeded. This data may be difficult to obtain. Also see Coverage Offered.),

   e. 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),

   f. Amount of coverage,

   g. Name and address of mortgagee,

   h. Mortgage loan number,

   i. Policy number.

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

N. Rates

(See page MPPP 1.)

O. Policy Declaration 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 (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 (or WYO company) to replace this policy with a conventionally under-written Standard Flood Insurance Policy, 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

Section VII.G. of the Dwelling Form and of the General Property Form will apply as appropriate.

Examples of circumstances under which reformation or correction might be needed would be:

Policy Reformation—The wrong flat rate was applied for the zone in which the property was actually located. Policy Correction—The amount of coverage exceeds the amount available under the NFIP for the type of building occupancy that represents the building insured. In such cases, the amount of coverage would have to be adjusted to the amount available and any appropriate premium adjustments made.

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

A $1000 deductible is applicable for policies written under the MPPP.

S. 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.

T. 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.

U. Cancellations

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

V. 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.

W. 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.

X. 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 one 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.