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## DESCRIPTION / OVERVIEW

On Q Financial underwrites and sells loans directly to the agencies as well as different investors/aggregators. The purpose of this policy is to describe the guidance to be used for all transactions on the documentation for insurance needed, depending on the individual file requirements.

## POLICY

On Q Financial must ensure that each loan file has the required insurance in place whether it is hazard, flood, a blanket policy, HO-6, etc. depending on the type of property, to insure the security of the property. The requirement for each type of insurance is outlined in the body of this document.

Each borrower has the right to select his or her own insurance carrier to provide hazard insurance for the secured property, provided that the insurance policy and coverage meet the requirements of On Q Financial.

## PROPERTY (HAZARD) INSURANCE

### Agency Rating Requirements

Unless otherwise specified, the insurance carrier must meet one of the following rating categories, even if it is rated by more than one agency:

Rating Agency	Requirements
<b>A.M. Best Company</b> www.ambest.com	Must have either: <ul style="list-style-type: none"> <li>• “B” or better Financial Strength Rating in Best’s Insurance Reports; <b>or</b></li> <li>• “A” or better Financial Strength Rating and a Financial Size Category of “VIII” or greater in Best’s Insurance Reports Non-US Edition</li> </ul>
<b>Demotech, Inc.</b> www.demotech.com	Must have an “A” or better rating in Demotech’s Hazard Insurance Financial Stability Ratings.
<b>Standard and Poor’s</b> www.standardandpoors.com	Must have a “BBB” or better Insurer Financial Strength Rating in Standard and Poor’s Ratings Direct Insurance Service
<b>Kroll Bond Rating Agency</b> www.krollbondratings.com	Must have a “BBB” or better rating in Kroll Bond Rating Agency’s Insurance Financial Strength Rating (IFSR).

If a carrier is rated by more than one rating agency, it only has to meet the requirements for one of them.

Other acceptable Insurance Underwriters include:

- Policies underwritten by a State’s Fair Access to Insurance Requirements (FAIR) plan, provided that it is the **only** insurance coverage that can be obtained
- Policies obtained through State insurance plans if that is the **only** insurance coverage this is available. Examples of this type of insurance include, but are not limited to:
  - ✓ Hawaii Property Insurance Association (HPIA)
  - ✓ Florida’s Citizens Property Insurance Corporation
  - ✓ Other state mandated windstorm and beach erosion insurance pools

### Evidence of Insurance

The file must contain a copy of the policy’s Declaration Page to evidence that the secured property is covered by hazard insurance. This includes all property types including Condominiums and PUD projects. For construction or renovation loans, the policy must reflect, or the agent must confirm in writing, that the insurance company is aware that the property is undergoing construction/renovation and this in no way impedes the insurance coverage.

### Determining the Amount of Required Hazard Insurance

The following table describes how to calculate the amount required hazard insurance coverage. (NOTE: The term “Insurable Value” is defined as the face amount of the hazard insurance policy as provided by the insurance carrier.)

Step	Description
1	Compare the insurable value of the improvements as established by the property insurer to the unpaid principal balance of the mortgage loan.
1A	If the insurable value of the improvements is less than the unpaid principal balance, the insurable value is the amount of coverage required.
1B	If the unpaid principal balance of the mortgage loan is less than the insurable value of the improvement, go to Step 2.
2	Calculate 80% of the insurable value of the improvements.
2A	If the result of this calculation is equal to or less than the unpaid principal balance of the mortgage, the unpaid principal balance is the amount of coverage required.
2B	If the result of this calculation is greater than the unpaid principal balance of the mortgage, this calculated figure is the amount of coverage required.

### Examples – Determining the Amount of Required Hazard Insurance

Category	Property A	Property B	Property C
Insurable Value	\$90,000	\$100,000	\$100,000
Unpaid Principal Balance	\$95,000	\$90,000	\$75,000

Result	Insurable Value is Less than UPB	UPB is less than Insurable Value	UPB is less than Insurable Value
<b>80% of Insurable Value</b>	N/A	\$80,000	\$80,000
<b>Required Coverage</b>	\$90,000	\$90,000	\$80,000
<b>Calculation Method</b>	Step 1A	Step 2A	Step 2B

### Coverage Requirements – Hazard Insurance

Hazard insurance must protect against loss or damage from fire and other hazards covered by the standard extended coverage endorsement. Extended coverage must include, at a minimum: wind, civil commotion (including riots), smoke, hail, and damage caused by aircraft, vehicle or explosion. The extended coverage should be referenced on the Declaration Page.

The policy’s coverage must provide for claims to be settled on a replacement cost basis.

On Q Financial does not accept hazard insurance policies that limit or exclude from coverage, in whole in part: windstorm, hurricane, hail damages, or any other perils that normally are included under an extended coverage endorsement.

The hazard insurance policy may not include such limitations or exclusions, unless documentation is provided of:

- A separate policy or endorsement from another commercial insurer providing adequate coverage for the limited or excluded perils; **or**
- A separate policy from an insurance pool that the State has established to cover the limitations or exclusions.

Coverage is required to be equal to or the lesser of the following:

- 100% of the insurable value of the improvements, as established by the property insurer. Documentation from the insurer may be required to support how the coverage amount was determined (e.g., Replacement Cost Estimator or similar documentation); **or**
- The policy includes a “Guaranteed Replacement Cost Endorsement”; **or**
- The unpaid principal balance of the mortgage, as long as it equals the minimum amount – 80% of the insurable value of the improvements – required to compensate for damage or loss on a replacement cost basis. If it does not, then coverage that does provide the minimum required amount must be obtained.

## Deductible Amount Requirements – Hazard Insurance

Loan Type	Maximum Allowable Deductible
<b>FNMA, FHLMC, FHA and VA</b>	<p><b>5% of the face amount of the policy</b></p> <ul style="list-style-type: none"> <li>Includes common elements in a PUD or Condo project</li> </ul> <p>If policy provides for a separate wind-loss deductible (either in the policy itself or a separate endorsement), the maximum allowable deductible for all one- to four-unit properties applies to all required perils, including when a property insurance policy includes multiple deductibles.</p>
<b>USDA (Rural Housing)</b>	<p><b>Greater of either \$1,000 or 1% of the face amount of the policy.</b></p> <p>If the minimum deductible offered by the borrower’s chosen insurance carrier exceeds the stated requirement, the file must be documented with a letter from the insurance agent or carrier verifying the deductible the borrower received is the lowest deductible offered for that policy.</p>

## Notices of Changes or Cancellation for Condominium

The property insurance policy must provide for written notice to the named insured and mortgagee(s) before an insurer can cancel a policy for one- to four-unit properties and units in project developments.

## HAZARD COVERAGE - UNITS IN PROJECT DEVELOPMENTS (CONDOMINIUM AND PUD)

This section covers property insurance requirements for insurance policies specific to properties located in “project developments”, which includes Condominiums and Planned Unit Developments (PUD).

The insurance policy must at least protect against fire and all other hazards that are normally covered by the standard extended coverage endorsement, and all other perils customarily covered for similar types of projects, including those covered by the standard “all risk” endorsement. If the policy does not include an “all risk” endorsement, On Q Financial will accept a policy that includes the “broad form” covered causes of loss.

## PUD Requirements

<b>Individual Units</b>	<p>Individual insurance policies are also required for each unit mortgage in a PUD project for which On Q Financial lends. Coverage must meet all requirements outlined under “Property Insurance”.</p> <p>If the project’s legal documents allow for blanket insurance policies to cover both the individual units and the common elements, On Q Financial will accept the blanket policies for the units, provided the coverage meets all requirements.</p>
<b>Master or Blanket</b>	<ul style="list-style-type: none"> <li>Mortgages secured by units in a PUD with a master or blanket insurance policy that combines insurance coverage for multiple unaffiliated PUDs are eligible provided that each covered PUD has a dedicated policy limit and a</li> </ul>

<p><b>Insurance Policies</b> (Needed only when the HOA covers the dwelling and common elements)</p>	<p>specific dedicated deductible that does not exceed the deductible requirements. Also, the policy must clearly state that each association is a named insured. The policy limit needs to cover the full replacement cost required for the Common Elements, and to the extent required, the units. A review of the insurance policy and endorsements are required to adequately evaluate the insurance coverage. Additionally, the insurance policy must meet all requirements and other Purchase Documents applicable to master or blanket insurance policies covering affiliated PUDs such as:</p> <ul style="list-style-type: none"> <li>➤ The insurance company underwriting the master or blanket policy must meet the insurance ratings requirements,</li> <li>➤ The protected perils must include those normally covered in policies for similar types of PUDs; and</li> <li>➤ If applicable, the building ordinance or law endorsement and/or equipment breakdown endorsement.</li> </ul> <p>Projects that are under the same master association and/or share the use of common facilities, whether those facilities are individually owned or owned as part of a master association or development, are considered to be affiliated projects. Multiple projects that do not meet one of these criteria, even if they are under the management of the same management company, are not considered to be affiliated projects.</p>
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**Condominium Requirements**

<p><b>“Single Entity”</b></p>	<ul style="list-style-type: none"> <li>• Policy must cover all of the general and limited common elements that are normally included in coverage. This includes fixtures, building service equipment and common personal property and supplies belonging to the homeowner’s association. The policy also must cover fixtures, equipment and replacement of the improvements and betterments that have been made inside the individual unit being financed.</li> <li>• The amount of coverage must be sufficient to restore the condo unit to its condition prior to a loss claim event.</li> <li>• If the unit interior improvements are not included under the terms of this policy, the borrower is required to obtain a HO-6 policy with coverage, as determined by the insurer, which is sufficient to repair the condo unit to its condition prior to a loss claim event.</li> </ul>
<p><b>“All In”</b></p>	<ul style="list-style-type: none"> <li>• Policy must cover all of the general and limited common elements that are normally included in coverage. This includes fixtures, building service equipment and common personal property and supplies belonging to the homeowner’s association. The policy also must cover fixtures, equipment and replacement of the improvements and betterments that have been made inside the individual unit being financed.</li> <li>• If the unit interior improvements are not included under the terms of this policy, the borrower is required to obtain a HO-6 policy with coverage, as determined by the insurer, which is sufficient to repair the condo unit to its condition prior to a loss claim event.</li> </ul>

<b>“Bare Walls”</b>	<ul style="list-style-type: none"> <li>• Policy typically provides no coverage for the unit interior fixtures, equipment and replacement of interior improvements and betterments.</li> <li>• Borrower must obtain an individual HO-6 policy with coverage, as determined by the insurer, which is sufficient to repair the condo unit to its condition prior to a loss claim event.</li> </ul>
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**Amount of Coverage**

Insurance must cover 100% of the insurable replacement cost of the project improvements, including the individual units in a condo project. An insurance policy that includes one of the following endorsements ensures full insurance value replacement cost coverage:

- Guaranteed Replacement Cost Endorsement, under which the insurer agrees to replace the insurable property regardless of the cost. If the policy includes a coinsurance clause, an Agreed Amount Endorsement, which waives the requirement for coinsurance. **OR**
- Extended Replacement Cost Endorsement, where the insurer agrees to pay more than the property’s insurable replacement cost. **OR**
- Replacement Cost Endorsement, under which the insurer agrees to pay up to 100% of the property’s insurable replacement cost, but no more. If the policy includes a coinsurance clause, an Agreed Amount Endorsement, which waives the requirement for coinsurance.

**Policies with Coinsurance**

Policies with coinsurance provisions can create additional risk for a HOA in the event of a loss if the amount of insurance coverage is less than the full insurable value. Master property policies that provide coverage at 100% of the insurable replacement cost of the project improvements, including the individual units, alleviate the risk of a coinsurance penalty being applied in the event of a loss.

If the policy has a coinsurance clause, inclusion of an Agreed Amount Endorsement, or selection of the Agreed Value Option (which waives the requirement for coinsurance), is considered acceptable evidence that the 100% insurable replacement cost requirement has been met. If an Agreed Amount/Agreed Value provision is used, the Agreed Amount must be no less than the estimated replacement cost.

If the policy includes a coinsurance clause, but the coinsurance provision is not waived, the policy is still eligible if evidence confirms that the amount of coverage is at least equal to 100% of the insurable replacement cost of the project improvements. The documentation to support this evidence must be maintained in the loan file.

**Special Endorsements for Project Units**

The following insurance endorsements are required for properties in project developments:

Type of Property	Required Endorsements
Condominium and PUD	<ul style="list-style-type: none"> <li>• Inflation Guard Endorsement, when it can be obtained;</li> <li>• Building Ordinance or Law Enforcement. If the enforcement of any building, zoning or land use law results in loss or damage, increased cost of repairs or reconstruction, or additional demolition and removal</li> </ul>

	<p>costs. The endorsement must provide for contingent liability from the operation of building laws, demolition costs and increased costs of reconstruction.</p> <ul style="list-style-type: none"> <li>• Steam Boiler and Machinery Coverage Endorsement, if the project has central heating or cooling. Endorsement should provide for the insurer's minimum liability per accident to at least equal to the lesser of \$2 million or the insurable value of the building(s) housing the boiler or machinery. In lieu of obtaining this endorsement to the commercial package policy, the project may purchase separate standalone boiler and machinery coverage.</li> </ul>
<p>Condominium ONLY <i>(Required in addition to the above listed requirements)</i></p>	<ul style="list-style-type: none"> <li>• Any Insurance Trust Agreement is recognized</li> <li>• The right of subrogation against unit owners is waived</li> <li>• The insurance is not prejudiced by any acts or omissions of individual unit owners that are not under the control of the homeowner's association</li> <li>• The policy must be primary, even if a unit owner has other insurance that covers the same loss</li> </ul>

### Maximum Deductible Amounts

For policies covering the common elements in a PUD project and for policies covering condo projects, the maximum deductible amount must be no greater than 5% of the face amount of the policy.

For losses related to individual PUD units that are covered by the blanket policy for the project, the maximum deductible amount related to the individual unit should be no greater than 5% of the replacement cost of the unit. If, however, the policy provides for a wind-loss deductible (either in the policy itself or in a separate endorsement), that deductible must be no greater than 5% of the face amount of the policy.

For blanket insurance policies that cover both the individual units and the common elements, the maximum deductible amount related to the individual unit should be no greater than 5% of the replacement cost of the unit.

### Notices of Changes or Cancellation for Condominium

The policy must require the insurer to notify in writing the homeowner's association (or insurance trustee) and each first mortgage lien holder named in the mortgagee clause at least 10 days before it cancels or substantially changes a condo project's coverage.

**For master or blanket insurance for unaffiliated condo associations or projects:** The policy or the endorsements must have a cancellation provision requiring each insurance company or its authorized designee or administrator to notify the named insured at least 30 days in advance of any policy reduction or cancellation for any reason except non-payment of premium. In the event of cancellation for non-payment of premium, the policy must require the insurer to notify in writing the homeowner's association (or insurance trustee) and each first mortgage lien holder named in the mortgagee clause at least 10 days before it cancels or substantially changes coverage.

**FLOOD INSURANCE**

Flood insurance is required for any property that has a builder, dwelling, structure or improvement situated in a Special Flood Hazard Area (“SFHA”) that:

- Has federally mandated flood insurance purchase requirements; or
- Is located in the Coastal Barrier Resources System or Otherwise Protected Area

**Flood Insurance Escrow Requirement**

On June 22, 2015, federal regulatory agencies issued a Joint Agency Statement approving a Final Rule clarifying, modifying and implementing regulations that apply to loans secured by properties located in a Special Flood Hazard Area. The Final Rule implements provisions of the Flood Insurance Reform Act of 2012 and Homeowner Flood Insurance Affordability Act of 2014. As a result, when a loan requires flood insurance, the monies for flood insurance premiums **must be held in escrow/impound regardless of LTV**. Escrow waivers will not be accepted for flood insurance.

**Voluntary Flood Insurance**

On loans where flood insurance is **not required**; however, the borrower **elects** to voluntarily obtain flood insurance, the monies for any flood insurance cannot be held in an escrow/impound account.

**Determination of Flood Zone and Eligibility**

On Q must determine whether or not each security structure on the security property is located in a SFHA by using the Standard Flood Hazard Determination form endorsed by FEMA. SFHAs are shaded on a Flood Hazard Boundary Map and designated on a Flood Insurance Rate Map (FIRM). All flood zones beginning with the letter “A” or “V” are considered SFHAs. For the purposes of these requirements, the term “security structure” is any structure that is securing the subject mortgage

The following table describes how to evaluate a property to determine if flood insurance is required. For the purpose of these requirements, the “principal structure” is the primary residential structure on the property securing the mortgage loan.

If...	Then flood insurance is ...
any part of the principal structure is located in an SFHA,	required.
the principal structure is not located in an SFHA, but a residential detached structure attached to the land that serves as part of the security for the mortgage loan is located within the SFHA	required for the residential detached structure.
the principal structure is not located in an SFHA, but a non-residential detached structure attached to the land that serves as part of the security for the mortgage loan is located within the SFHA	not required on either structure.
the principal structure is not located in an SFHA, but a detached structure attached to the land that	not required on either structure.

does not serve as part of the security for the mortgage loan is located within the SFHA	
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The Agencies will not require flood insurance on a security structure if the borrower obtains a letter from FEMA stating that its maps have been amended so that the security structure is no longer in a SFHA. (Referred to as a “Letter of Map Amendment” (LOMA) or “Letter of Map Revision” (LOMR).)

### **Emergency Program of NFIP**

For communities that participate in the Emergency Program of the NFIP, mortgage loans secured by properties in those communities are eligible for purchase by FNMA and FHLMC provided that the flood insurance coverage meets the higher NFIP Regular Program limits available on FEMA’s website. Because the NFIP Emergency Program provides only limited coverage, the borrower must either private insurance or a supplemental private policy in conjunction with the NFIP Emergency Program policy that fully meets Agency flood insurance coverage requirements.

### **Non-Participating Communities**

If On Q determines that a security structure is located in a SFHA, but the community **does not** participate in the National Flood Insurance Program (NFIP), the mortgage is **not eligible** for agency transactions.

### **Required Flood Notification to the Borrower**

Once the property has been determined that it is in a flood zone, a Flood Notification must be delivered to the borrower a **minimum of 10 calendar days** prior to closing.

### **FHA / VA Flood Insurance Requirements**

A property is not eligible for FHA or VA insurance if:

- A residential building and related improvements to the property are located within SFHA Zone A, a Special Flood Zone Area, or Zone V, a Coastal 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 a Coastal Barrier Resource System (CBRS).

### **Eligibility for Proposed or 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 a SFHA, the property is not eligible for FHA or VA mortgage insurance unless the mortgagee:

- Obtains from FEMA a final Letter of Map Amendment (LOMA) or final Letter of Map Revision (LOMR) that removes the property from the SFHA; or,
- Obtains a FEMA National Flood Insurance Program Elevation Certificate (FEMA Form 086-0-33) prepared by a licensed engineer or surveyor. 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 insurance under the NFIP is obtained; and

- Ensures that Flood Insurance is obtained.

### **Eligibility for Existing Construction in SFHAs**

When any portion of the residential improvements is determined to be located within a SFHA, the community must participate in the National Flood Insurance Program (NFIP), regardless of whether the Borrower obtains NFIP coverage or Private Flood Insurance.

### **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 are located within a SFHA, the property is not eligible for FHA or VA mortgage insurance unless the mortgagee obtains:

- Obtains from FEMA a final Letter of Map Amendment (LOMA) or final Letter of Map Revision (LOMR) that removes the property from the SFHA; or,
- Obtains a FEMA National Flood Insurance Program Elevation Certificate (FEMA Form 086-0-33) prepared by a licensed engineer or surveyor stating that the finished grade beneath the manufactured home is at or above the 100-year return frequency flood elevation, and
- Ensure that Flood Insurance is obtained.

### **Acceptable Flood Insurance Policies**

Flood insurance must be in the form of a standard policy issued under the NFIP or by a private insurer if allowed under the applicable loan type/program. The terms and conditions of the flood insurance coverage must be at least equivalent to the terms and conditions of coverage provided under the standard policy for the NFIP for the appropriate property type.

The Policy Declaration page of a policy is acceptable evidence of coverage.

**Policies that are written/reflected on an Acord Form are considered applications and are not acceptable, regardless of the information reflected on the face of the document.**

### **Coverage Requirements – Flood Insurance**

The minimum amount of flood insurance required for most first mortgages secured by one- to four-unit properties, individual PUD units and certain individual condo units (such as those in detached condos, townhouses or row houses) is the **lower** of:

- 100% of the replacement cost of the insurable value of the improvements; or
- The maximum insurance available from the NFIP (currently \$250,000 per dwelling); or
- The unpaid principal balance of the mortgage.

**NOTE:** Specific requirements for units in a project development (Condominiums) are below.

### **FHA / VA Coverage Requirements – Flood Insurance**

FHA and VA loans require that flood insurance be issued under the National Flood Insurance Program (NFIP) or a Private Flood Insurance (PFI) policy.

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.

For properties located within a SFHA, flood insurance must be maintained for the life of the mortgage in an amount at least equal to the lesser of:

- 100% replacement cost of the insurable value of the improvements, which consists of the development or project cost less estimated land cost: or
- The outstanding balance of the mortgage, or
- The maximum amount of insurance available from the NFIP with respect to property improvements

### **Requirements for Private Flood Insurance (PFI) Policies**

If the Borrower purchases a PFI policy in lieu of an NFIP policy, the policy must meet 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.

- If all the above are not included in or on the policy or included in the loan file, the Insurance provider must attest that “This policy meets the definition of private flood insurance contained in 24 CFR 203.16a(e) for FHA-insured mortgages.”

### **Condominium Coverage – Flood Insurance**

Individual Condo Units – Detached Units: Refer to the **coverage requirements** outlined above.

Individual Condo Units – Attached Units: Stand-alone flood insurance dwelling policies for an attached individual condo unit are not acceptable. A master condo flood insurance policy must be maintained by the HOA, subject to the coverage requirements below (under “Condo Projects”).

Condo Projects: 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. The HOA must maintain a Residential Condominium Building Association Policy or equivalent private flood insurance coverage for the subject unit’s building if it is located in a SFHA. The policy must cover:

- All of the common elements and property (including machinery and equipment that are part of the building); and
- The entire building including each of the individual units in the building.

The master flood insurance policy must be equal to the lower of:

- 100% of the replacement cost of the covered improvements; or
- The maximum insurance available from NFIP per unit multiplied by the number of condominium units.

**NOTE:** If the condo project master policy meets the minimum coverage requirements above but does not meet the one- to four-unit coverage requirements, a supplemental policy may be maintained by the unit owner for the difference.

### **Required Documentation**

The following documentation must be included in the loan file:

- Form HUD-9222;
- 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.

The contents coverage for the building should equal 100% of the insurable value of all contents owned in common by association members.

If the condo project has no master flood insurance policy, or if the master flood insurance policy does not meet the above requirements, mortgages securing units in that project are not eligible.

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### Properties Located in the Coastal Barrier Resources System (CBRS) or Other Protected Area (OPA)

Properties located within the Coastal Barrier Resources System (CBRS) or within an Otherwise Protected Area (OPA) as defined by the Coastal Barrier Resources Act, flood insurance is required on Conventional transactions and On Q must verify that the flood insurance policy meets Agency requirements. A mortgage in a non-participating CBRS or OPA community is eligible only if the unit is not located in a SFHA and will require flood insurance to be eligible for delivery to the Agencies.

On Q Financial will accept flood insurance policies from either private insurance carriers or from the NFIP. The amount of flood insurance required must meet On Q Financial's minimum coverage requirements for the appropriate property type. The carrier must meet the minimum rating requirements for insurance underwriters as referenced above.

### FHA / VA Restrictions – Properties Located in the CBRA or OPA

In accordance with the Coastal Barrier Resources Act, a property is **not eligible** for FHA or VA mortgage insurance if the improvements are, or are proposed to be, located within the Coastal Barrier Resources System.

### Flood Insurance Requirement for One-Time Close Construction/Permanent Loans

If a property originated under the On Q One Time Close Construction/Permanent program is determined to be located in a SFHA, flood insurance must be obtained once the foundation is poured/established.

If the property is a manufactured/modular housing that will be placed on piers (or similar pier-based support structure), flood insurance must be obtained once the piers are in place on the subject property.

### Deductible Amounts – Flood Insurance

Unless a higher maximum allowable deductible amount is required by state law, the maximum allowable deductible for a flood insurance policy for a first lien mortgage loan is \$5,000. For condo projects, the maximum deductible is \$25,000 or the maximum per state law, whichever is less.

### POLICY REQUIREMENTS (HAZARD AND FLOOD)

Regardless of the type of insurance policy (hazard or flood insurance), there are specific requirements for who must be shown as the insured party, what information is required on the policy and mortgagee clause.

#### Named Insured

The table below provides the requirements regarding the name of the insured entity.

Coverage Type	Requirement for Named Insured
<b>Single Family Dwelling</b>	All persons holding title to the subject property are designated as the named insured on property and flood insurance policies for one- to four-unit properties and units in project developments.
<b>Condo Projects</b>	The policy must show the homeowner's association as the named insured. If the condo's legal documents permit it, the policy can specify an authorized representative of the homeowner's association, including its insurance trustee, as the named insured. The "loss payable" clause should show the homeowner's association or the insurance trustee as a trustee for each unit owner and the holder of each unit's mortgage loan.
<b>PUD Common Areas</b>	The policy must show the homeowner's association as the named insured.

#### Required Information

Item	Requirements / Information
<b>Borrower(s)</b>	The name(s) of the borrower(s) should be compared to and match the: <ul style="list-style-type: none"> <li>• Preliminary Title Report (Vesting)</li> <li>• Note</li> </ul>
<b>Property Address</b>	The property address should be compared to and match the: <ul style="list-style-type: none"> <li>• Appraisal</li> <li>• Purchase Contract (if applicable)</li> <li>• Preliminary Title Report (Vesting)</li> <li>• Note</li> <li>• Security Instrument</li> </ul>
<b>Mailing Address</b>	<b>Primary Residence</b> Same as Property Address
	<b>2nd Homes / Investment</b> Same as Borrower's Primary Address on the 1003
<b>Loan Number</b>	Must be the On Q Financial loan number
<b>Effective Date</b>	The effective date must be no later than the day of loan funding. If the effective date is prior to the day of loan funding, it should be no earlier than <b>15 days prior</b> to the funding date, provided it is in the same month as funding.
<b>Insurance Agent</b>	The policy should reflect the Name, Address and Phone Number of the insurance agent.

## Loss Payee / Mortgagee Clause

The insurance policy must reflect the standard On Q Financial mortgagee clause.

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When the end investor is not On Q Financial, investors will accept a Loss Payee in the name of On Q Financial provided there is an Endorsement Letter requesting that the Loss Payee be changed to reflect the end investor. If a bond loan, refer to the specific HFA user Guide for Loss Payee information.

## Evidence of Premium Payment

Satisfactory evidence must be documented to support that the hazard and flood, when applicable, insurance premiums have been paid in full. Acceptable evidence includes **one** of the following:

- Paid receipt from the insurance agent; **or**
- Payment itemized on the Closing Disclosure (CD) indicating payment of the full amount of the premium(s); **or**
- The declarations page reflects a zero balance under the premium amount(s). (This option is not permitted if using a **binder** to document the hazard insurance coverage.)

## Term of Insurance Coverage

The required term of the policy is determined by the transaction type:

Transaction Type	Required Policy Term
<b>Purchase</b>	Policy must reflect a minimum of 12 months from the date of closing.
<b>Refinance</b>	<ul style="list-style-type: none"> <li>• The current policy must clearly reflect an expiration/end date and that date must extend a minimum of 60 days past the funding date.               <ul style="list-style-type: none"> <li>✓ If the current policy expires/ends <b>within</b> 60 days of the funding date, the premium amount must be collected at closing to allow for renewal of the policy for one year.</li> </ul> </li> <li>• The mortgagee clause must be updated to reflect On Q as the mortgagee.</li> </ul>

## Escrow / Impound Policy

Escrows / impounds for all **required** insurances will be established on all loans unless:

- Expressly prohibited by program guidelines; **or**
- The escrow / impound account is waived (provided waiving of escrows/impounds is permitted and pricing requirements are met)

### Voluntary Insurances

For any coverage that is voluntarily elected by the borrower that is not a **requirement** of the loan (resulting from loan guidelines, product requirements or property type), the monies for these voluntary insurances cannot be held in an escrow/impound account.

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### INSURANCE COVERAGE – BUILDER’S RISK POLICIES

#### Definition

Builder’s Risk insurance, also known as “Course of Construction” insurance, is a specific type of property insurance that covers the subject property during construction and/or renovation. Typically it covers the structure and the materials on site. For a renovation loan there must not be any coverage exclusions or limitations related to the renovation work during the time that work is being performed on the property.

Loans originated under the On Q Financial “One Time Close Construction/Permanent” program or any Renovation program (e.g., HomeStyle, 203(k)) require a **Builder’s Risk** insurance policy.

Builder’s Risk policies are typically 3, 6, 9 or 12 months in duration and must cover the property for the entire length of the construction and/or renovation. Upon completion of the construction and/or renovation, a standard hazard policy must be provided to show that the subject property is properly insured.

#### Policy Requirements

For all “One Time Close Construction/Permanent” and “Renovation” loans, the Builder’s Risk policy must:

1. Reflect coverage in an amount **not less than** 100% of the replacement **cost of the improvements** or the loan amount, whichever is **greater**. (**NOTE:** The **cost of improvements** is typically determined by the documentation specific to the project which outlines the cost to build / renovate (e.g., the construction budget, the renovation project bid).;
2. Include a Physical Loss Endorsement;
3. Include coverage for “onsite stored materials, not yet in place”;
4. Carry a deductible not to exceed \$1,000;
5. Cover the term of the construction/renovation;
6. Reference the subject property as the insured location;
7. Reflect On Q as the Mortgagee

If using a “master” builder’s risk policy, the policy must:

1. Meet all coverage requirements as required by On Q Financial
2. Cover the term of the construction/renovation;
3. Reference the subject property as one of the insured locations;
4. Reflect On Q as a Mortgagee (or provide evidence that payout would be made directly to On Q in the event of any loss claim)

#### Liability Coverage

Unless otherwise reflected on the policy, Builder’s Risk insurance does not typically include liability coverage. If not reflected on the policy, a separate policy should be obtained to document that there is coverage for general liability. Refer to specific product guidelines for coverage amount requirements.

#### Policy Premium

The Builder’s Risk insurance premium must be paid **in full** either prior to or at closing. Evidence of payment of the premium must be documented with the loan file.

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### INSURANCE COVERAGE – CONSTRUCTION/PERMANENT LOAN MODIFICATIONS

#### Definition

For all loans closed under the One Time Close Construction/Permanent loan program, evidence of insurance coverage is required both during the course of construction and after the loan is converted to permanent financing.

#### Policy Requirements

**Prior to modification** of the construction loan to permanent financing, a hazard insurance policy that meets all current requirements as outlined in this policy must be provided.

Construction loans cannot be modified until such time that an acceptable hazard insurance policy is provided.

#### Policy Premium

The premium for the hazard insurance policy provided for the permanent financing must be paid by the borrower either:

- **prior** to modification – with evidence of a paid receipt; **or**
- **at** modification – with evidence of premium payment through paid receipt or line-item on any ALTA Settlement Statement

Any funds used for premium payment must be documented as required under all current guidelines.

#### Escrow Account Reconciliation

At the time of modification of the loan from construction to permanent, any existing escrow account that was established at construction loan closing will be reconciled against the actual policy and any necessary adjustments made for the escrow account. This includes the collection of additional funds to be deposited to the escrow account to ensure sufficient monies are available for premium payment when the policy is next due.