



DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

WASHINGTON, DC 20410-8000

ASSISTANT SECRETARY FOR HOUSING-
FEDERAL HOUSING COMMISSIONER

Date: December 28, 2010

To: All Approved Mortgagees
All Approved Mortgage Servicers
All FHA Roster Appraisers

Mortgagee Letter 2010-43

Subject Flood Zone Requirements for Federal Housing Administration (FHA)
Insured Mortgages

Purpose This Mortgagee Letter provides new guidance on FHA Flood Zone requirements and updates Mortgagee Letter 2009-37. FHA now requires that all Mortgagees obtain a flood zone determination on all properties instead of strongly encouraging such action. In addition, FHA is now consistent with the Coastal Barrier Resources Act (CBRA) by prohibiting FHA Mortgage Insurance for properties located within designated coastal barriers.

New Requirements The new guidance contained in this Mortgagee Letter is as follows:

- A requirement that Mortgagees obtain life-of-loan flood zone determination services for all properties that will be collateral for FHA-insured mortgages.
- A notice that any property located within a designated Coastal Barrier Resource System (CBRS) unit is not eligible for an FHA-insured mortgage.

Effective Date All requirements contained in this Mortgagee Letter are effective for all case numbers assigned on or after March 1, 2011.

Changes to Existing Policy The changes to existing policy that are a part of this mortgagee letter provide new guidance and clarification of existing guidance. The revisions identify the Topic heading and provide the entire content of each block affected with the specific changes underlined. The changes will be integrated into the FHA Single Family On-Line Handbooks prior to March 1, 2011.

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Date: **December 28, 2010**, Continued

Appendix

Attached is an Appendix that provides the Mortgagee with a tool to efficiently identify the Flood insurance requirements for the property types addressed in this Mortgagee Letter.

**Information
Collection**

Paperwork reduction information collection requirements contained in this document have been approved by the Office of Management and Budget (OMB) under the Paperwork Reduction Act of 1995 (44 U.S.C. 3501-3520) and assigned OMB Control Number 2502-0059. In accordance with the Paperwork Reduction Act, HUD may not conduct or sponsor, and a person is not required to respond to, a collection of information unless the collection displays a currently valid OMB Control Number.

Questions

If you have questions concerning this Mortgagee Letter, please call the FHA Resource Center at 1-800-CALLFHA (1-800-225-5342). Persons with hearing or speech impairments may reach this number via TDD/TTY by calling 1-877-TDD-2HUD (1-877-833-2483).

Signature

David H. Stevens
Assistant Secretary for Housing-Federal Housing Commissioner

[Appendix](#)



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Mortgagee Letter 2010-43, 4155.2 Chapter 4.3.

3. Requirements for Properties in Special Flood Hazard Areas (SFHA) (Revised Topic) (Changes Underlined)

Introduction

This topic contains information on eligibility requirements for various types of properties in special flood hazard areas (SFHA), including

- responsibility for determining property eligibility in SFHAs
- properties in SFHA ineligible for FHA insurance
- eligibility ~~of~~ for proposed and new construction in SFHAs
- lender discretion on requiring a flood elevation certificate and/or flood insurance
- eligibility for existing construction in SFHAs
- eligibility for condominiums in SFHAs
- eligibility for manufactured homes in SFHAs
- ~~flood insurance requirements for~~
 - ~~existing construction~~
 - ~~condominiums, and~~
 - ~~manufactured homes, and~~
- ~~the~~ required amount of insurance coverage:
- flood zone documentation, and
- instructions to FHA Roster Appraisers

Change Date

March 1, 2011

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Mortgagee Letter 2010-43, 4155.2, Chapter 4.3.a

3. Requirements for Properties in Special Flood Hazard Areas (SFHA), (Revised Topic), (Changes Underlined),

Continued

**4155.2 4.3.a
Responsibility
for
Determining
Property
Eligibility in
SFHA**

The Mortgagee lender is responsible for determining if a property is located ~~the~~ eligibility of properties in a special flood hazard areas (SFHA) as designated by the Federal Emergency Management Agency (FEMA). ~~The FHA appraiser is required~~ to review the FEMA Flood Insurance Rate Map, note the FEMA zone designation on the Uniform Residential Appraisal Report (URAR), and if the property is located in a SFHA, attach a copy of the flood map panel. ~~Mortgagees Lenders are strongly encouraged, however, required~~ to obtain life-of-loan a-flood zone determination services, certification-independent of any assessment made by the appraiser., to avoid culpability for regulatory violations or civil claims for damages that may arise from improper determination.

Prior to closing, Mortgagees Lenders must inform borrowers of the requirement to obtain adequate flood insurance as a condition of closing for properties where any portion of the dwelling and related structures and equipment are located in a SFHA. Flood insurance premiums must be included in the escrow along with taxes and hazard insurance, only if escrow is required for those items. The actual cost of obtaining flood zone determination services may be passed on to the borrower. They must require the escrow of flood insurance premiums if escrow is required for other items such as hazard insurance and taxes.

Mortgagees and Servicers must assure that borrowers maintain adequate flood insurance during the life of the mortgage. Insurance must be obtained if the Mortgagee or Servicer becomes aware that the building involved subsequently becomes part of an SFHA due to a Flood Insurance Rate Map (FIRM) revision. Mortgagees are required to force place flood insurance if the borrower allows the policy to lapse or if the coverage is found to be inadequate.

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Mortgagee Letter 2010-43, 4155.2, Chapter 4.3.b

3. Requirements for Properties in Special Flood Hazard Areas (SFHA), (Revised Topic) (Changes Underlined),

Continued

4155.2 4.3.b Properties in SFHA Ineligible for FHA Insurance

A property is *not* eligible for FHA insurance if a residential building and related improvements to the property are located within a 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.

A property is not eligible for FHA mortgage insurance if the improvements are, or are proposed to be located, within the Coastal Barrier Resource System (CBRS).

In 1982, Congress enacted the Coastal Barrier Resources Act (CBRA) Public Law 97-348; 96 Stat. 1653. The Act, and subsequent amendments, are codified at 16 U.S.C. 3501 et seq., which was later amended in 1990 by the Coastal Barrier Improvement Act (CBIA) P.L. 101-591; 104 Stat. 2931. The CBRA:

- Protects coastal areas that serve as barriers against wind and tidal forces caused by coastal storms, and serve as habitat for aquatic species.
- Protects coastal areas from development by limiting Federal financial assistance for development-related activities in designated areas.
- Restricts Federal financial assistance, including disaster relief assistance provided by FEMA under the Robert T. Stafford Act and the NFIP in order to manage development, limit property damage and preserve wildlife and natural resources.
- Does not prohibit development within the CBRS by owners of such properties.

CBRS boundaries are established and mapped by the U.S. Department of Interior's Fish and Wildlife Service (USFWS). CBRS location maps and additional information regarding the Act can be found at:
http://www.fws.gov/habitatconservation/coastal_barrier.html.

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Mortgagee Letter 2010-43, 4155.2, Chapter 4.3.c

3. Requirements for Properties in Special Flood Hazard Areas (SFHA), (Revised Topic) (Changes Underlined)

Continued

4155.2 4.3.c
Eligibility for of
Proposed and
New
Construction in
SFHAs

If any portion of the property improvements (the dwelling and related structures/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 mortgage insurance *unless*

- a final Letter of Map Amendment (LOMA) or final Letter of Map Revision (LOMR) that removes the property from the SFHA is obtained from FEMA, or
- the lender obtains a FEMA National Flood Insurance Program Elevation Certificate (FEMA Form 81-31), if the property is not removed from the SFHA by a LOMA or LOMR. The flood elevation certificate must be prepared by a licensed engineer or surveyor documenting that the lowest floor (including the basement) of the residential building, and all related improvements/equipment essential to the value of the property, are built at or above the 100-year flood elevation in compliance with the NFIP criteria. The flood evaluation certificate must be prepared by a licensed engineer or surveyor.

If a LOMA or LOMR is obtained that removes the property from the SFHA, neither flood insurance nor a flood elevation certificate is required.

Note: Insurance under the NFIP *is* required when a flood elevation certificate documents that the property remains located within a SFHA.

~~Note:~~ The LOMA, LOMR or flood elevation certificate must be submitted with the case for endorsement.

~~Reference:~~ For more information on the National Flood Insurance Program criteria, see 44 CFR 60.3—60.6. Additional information regarding FEMA guidelines can be found at: http://www.fema.gov/good_guidance/download/10040

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Mortgagee Letter 2010-43, 4155.2, Chapter 4.3.d and e

3. Requirements for Properties in Special Flood Hazard Areas (SFHA), (Unchanged), Continued

**4155.4.3.d
Lender
Discretion on
Requiring a
Flood Elevation
Certificate
and/or Flood
Insurance**

If a lender is uncertain about whether a property is located within a SFHA, it may require a flood elevation certificate. In addition, the lender has discretion to require national flood insurance even if

- the residential building and related improvements to the property are not located within the SFHA, but
 - the lender has reason to believe that the building and related improvements to the property may be vulnerable to damage from flooding.
-

**4155.2 4.3.e
Eligibility for
Existing
Construction in
SFHAs**

Insurance under the NFIP must be obtained as a condition of closing and maintained for the life of the loan for an existing property when any portion of the residential improvements is determined to be located in an SFHA. If the improvements are subsequently removed from an SFHA by a LOMA or LOMR, flood insurance will no longer be required.

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Mortgagee Letter 2010-43, 4155.2, Chapter 4.3.f

3. Requirements for Properties in Special Flood Hazard Areas (SFHA), (Revised Topic), (Changes Underlined), Continued

4155.2.4.3.f

Eligibility

Flood

Insurance for

Condominiums

in SFHAs

The Homeowners' Association (HOA), not the individual condominium owner, is responsible for maintaining flood insurance on buildings located within a SFHA.

~~The lender is responsible for ensuring that the HOA obtains and maintains adequate flood insurance if the FHA appraiser reports that buildings in a condominium project are located within a SFHA.~~ The flood insurance coverage must protect the interest of borrowers who hold title to an individual units, as well as, the common areas of the condominium project. If the flood zone certification indicates that buildings in a condominium project are located in a SFHA, the Mortgagee is responsible for ensuring that the HOA obtains and maintains adequate flood insurance on buildings located within the SFHA.

~~A LOMA, LOMR, or elevation certificate is acceptable evidence if any part of the property improvements is located within the SFHA.~~

If a LOMA or LOMR is obtained that removes the property from the SFHA, neither flood insurance nor a flood elevation certificate is required.

Note: Insurance under the NFIP is required when a flood elevation certificate documents that the property remains located within a SFHA.

Reference: For more information on LOMA, LOMR and elevation certificate see **4155.2 4.3.c.**

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Mortgagee Letter 2010-43, 4155.2, Chapter 4.3.g

3. Requirements for Properties in Special Flood Hazard (Revised Topic), (Changes Underlined), Continued

4155.2.4.3.g
Eligibility
Flood
Insurance for
Manufactured
Homes in
SFHAs

24 CFR 203.43f (c) (i) and (d) (ii) require that the finished grade level beneath the manufactured homes shall be at or above the 100-year return frequency flood elevation. If any portion of the property improvements (the dwelling and related structures/equipment essential to the property value and subject to flood damage) for both new and existing manufactured homes properties are located within a SFHA (Zones A or V) , the property is not eligible for FHA mortgage insurance without :

- a FEMA-issued a final LOMA or LOMR that removes the property from the SFHA location is obtained from FEMA, or
- an elevation certificate (FEMA Form 81-31) prepared by a licensed engineer or surveyor stating that on the finished construction, indicating that the finished grade beneath the dwelling-manufactured home is at or above the 100-year return frequency flood elevation.

If a LOMA or LOMR is obtained that removes the property from the SFHA, neither flood insurance nor a flood evaluation certificate is required.

Note: When utilizing an elevation certificate, the property remains in a SFHA and flood insurance is required. Neither an elevation certificate nor flood insurance is required with LOMA or LOMR that removes the property from the SFHA. Insurance under the NFIP is required when a flood elevation certificate documents that the property remains located within a SFHA.

Important: For manufactured homes with basements, the grade beneath the basement must be at or above the 100-year flood elevation.

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3. Requirements for Properties in Special Flood Hazard (Revised Topic), (Changes Underlined), Continued

4155.2.4.3.h
Required
Insurance
Amount

Under Section 102(a) of the Flood Disaster Protection Act of 1973 [42 U.S.C.4012a(a)], Flood insurance must be obtained and National flood insurance is required for the term of the loan and must be maintained in an amount equal to the least of the following :

- the outstanding principal balance of the loan(s); or
 - the development cost of the property, less estimated land cost
 - the maximum amount of the NFIP insurance available with respect to the property improvements; or
 - the outstanding principal balance of the loan(s)-
the development cost of the property, less estimated land cost.
-

4155.2.4.3.i,
Flood Zone
Documentation

The appropriate flood zone documentation identified below must be submitted with the case binder for endorsement:

- Flood zone determination certificate for all properties, and if applicable
- Final Letter of Map Amendment (LOMA), or
- Final Letter of Map Revision (LOMR), or
FEMA National Flood Insurance Program Elevation Certificate (FEMA Form 81-31)

The flood documentation must follow the appraisal report in the stacking order for paper case binders and should be indexed in the appraisal package for electronic case binders.

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3. Requirements for Properties in Special Flood Hazard Areas (SFHA), (New Topic), (Changes Underlined)

Continued

4155.2.4.3.j, Instructions to FLHA Roster Appraisers

FHA Roster Appraisers are required to review the applicable FEMA FIRM and make appropriate notations on the applicable appraisal reporting form. If the property is located within a SFHA, the appraiser must:

- Attach a copy of the flood map panel to the appraisal report.
- Enter the FEMA zone designation on the reporting forms well as identify the map panel number and map date.
- Quantify the effect on value, if any.

Note: If the property is not shown on any map, the appraiser must enter “not mapped.”

Appraisers are required to perform the due diligence necessary to determine if a property is located within a CBRS. The CBRS boundaries are identified on the FEMA FIRM by patterns of backward slanting diagonal lines, both solid and broken. The USFWS mapping database is an additional source that identified the CBRS boundaries. If the property is located within the CBRS boundaries, appraisers are instructed to immediately stop work on the assignment and return the file to the Mortgagee.

Reference: For more information on flood insurance requirements, see UD 4150.2, Valuation Analysis for Single Family One-to-Four Unit Dwellings.
