

1 TO 4-UNIT SINGLE FAMILY RESIDENCE

EVIDENCE OF INSURANCE

All files must have an original homeowner's insurance policy. There are additional hazards that investors and Flagstar Bank may require coverage for, which are not included on homeowner's or fire policies. These hazards include windstorm/hail perils, earthquake damage and mudslide damage. Each policy must be current and must have a paid receipt. New policies must be valid for one year. In the case of a refinance, the original policy and the paid receipt are preferred. We will accept a copy of the original policy, certified as a true and exact copy by the agent. The originator and/or the borrower cannot certify the copy. Also, faxed copies are not acceptable. The policy must contain all of the following:

- Borrower's name(s) must be shown as primary insured. The property address must match mortgage records (mortgage, note, and title policy) exactly. No additional insured's or substitute names, not on the mortgage documents; including LLC's are acceptable under any circumstance.
- Policy inception and expiration dates must be clearly indicated. Annual premium must be indicated also along with paid receipt.
- Insurance carrier and agent must be clearly indicated with contact information.
- Property insurance for home mortgages must protect against loss or damage from fire and other hazards covered by the standard extended coverage endorsement.

AMOUNT OF COVERAGE

Coverage amount must equal the lesser of the following:

- 100% of the insurable value of the improvements, as established by the property insurer; 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 above requirements are not met, then coverage that does provide the minimum required amount must be obtained.

In order to determine the amount of required Hazard Coverage, follow these steps:

1. Compare the insurable value of the improvements as established by the property insurer to the unpaid principal balance of the mortgage. Flagstar reserves the right to contest the insurer's value if there is a tangible discrepancy with property appraisal
 - a. If the insurable value of the improvements is less than the unpaid principal balance, the insurable value will be the amount of coverage required.
 - b. If the unpaid principal balance of the mortgage is less than the insurable value of the improvements, proceed to Step 2.
2. Calculate 80% of the insurable value of the improvements.
 - a. If the result of this calculation is equal to or less than the unpaid principal balance of the mortgage, the unpaid principal balance will be the amount of coverage required.
 - b. If the result of this calculation is greater than the unpaid principal balance of the mortgage, this calculated figure will be the amount of coverage required.

Category	Property A	Property B	Property C
Insurable Value	\$90,000	\$100,000	\$100,000
Unpaid Balance	\$95,000	\$ 90,000	\$ 75,000
80% Insurable Value	-----	\$ 80,000	\$ 80,000



Hazard Insurance Requirements

Category	Property A	Property B	Property C
Required Coverage	\$90,000	\$ 90,000	\$ 80,000
Calculation Method	Step 1a	Step 2a	Step 2b

In the case of a Condominium unit in an association that has the owners provide their own homeowners coverage, the dwelling coverage must be equal to the loan amount as the land is not owned by the unit owner and is not part of the total value.

DEDUCTIBLE

Homeowner policy deductibles cannot exceed 5% of the dwelling coverage. Windstorm, Hail, and/or Hurricane coverage deductibles (whether included in the homeowners policy or written under a separate policy) cannot exceed 5% of the dwelling coverage, unless a higher deductible is required by state law.

MORTGAGEE CLAUSE

The *mortgagee clause* appearing on your borrower's homeowner's insurance for all loans, including HELOCs must read:

Broker

Flagstar Bank
Its Successor and/or assigns
P.O. Box 7026
Troy, MI 48007-7026

Correspondent

Lender's name as reflected on
the
Note/Security Instrument
Its Successor and/or assigns
(Lender's address);

Flagstar Bank
Its Successor and/or
assigns
P.O. Box 7026
Troy, MI 48007-7026

Although Flagstar will accept policies which show the correspondent as the loss payee, upon purchase of the loan by Flagstar the correspondent must immediately send an endorsement notice requesting insurance provider to update Flagstar as the new loss payee, using the name and address above.

Correspondents must also forward all insurance related trailing documents they may receive while the policies still show them as mortgagee following funding of the loan to the Flagstar Bank address shown above.

If more than one policy is required, a letter for each policy must be submitted. This is especially important on flood policies, as stated in the new law, there will be monetary fines for repeated non-compliance. See *Flood Insurance*, [Doc. #4603](#) for details.

ACCEPTABLE PAID RECEIPT

Each policy must be current and must have a paid receipt. New policies must be valid for one year. In the case of a refinance, the original policy and the paid receipt are preferred. In lieu of providing a paid receipt, evidence of amount disbursed on the Closing Disclosure is acceptable for both purchase and refinance transactions. We will accept a copy of the original policy, certified as a true and exact copy by the agent. The Wholesale Customer or the borrower cannot certify the copy. Also, faxed copies are not acceptable.

REFINANCES

On a refinance, an endorsement will be required to reflect the change in the amount of coverage if the new loan amount exceeds the current coverage. If an existing policy is being used, the policy must have a minimum of 60 days remaining before expiration/renewal from the date of closing. With this in mind, never will more than 10 months of hazard insurance be collected in reserves at the time of closing. Any policies



Hazard Insurance Requirements

renewing at, prior to, or within 60 days of closing will be the responsibility of the borrower or closing/disbursement agent to ensure remittance to the carrier for the next 12 month period. See the following example:

<u>Loan Disbursement Date</u>	<u>First Payment Date</u>	<u>Current Policy Expiration Date</u>	<u>Number of Months Required in Reserves</u>
1/7/2010	3/1/2010	6/1/2010	8

Please use *Hazard Insurance Information for Refinance Transaction, Doc. #3610* for all loans where the borrower's policy is renewing within 60 days of closing. This document is to be completed checking the appropriate action being taken. One calls for the funds being collected by the title company who by checking indicates that they will be making remittance directly to the insurance company, the other has the borrower acknowledging that they understand they will be responsible for the upcoming renewal if that renewal was not yet available at the time of closing.

Insurance must be effective no later than the consummation date, i.e. the date the borrower(s) sign(s) the note/security instrument except for escrow state purchases. All escrow state purchases require hazard insurance to be effective prior to or on the disbursement/funding date.

SPECIAL COVERAGES

At a minimum, the mortgaged premises must be protected against loss or damage from fire and other perils covered within the scope of standard extended coverage. Recent large-scale disasters have created in some areas, exclusions of normally covered items. These would include Windstorm/Hail coverage, Earthquake coverage, the standard exclusion of Flood damage, and lastly, the possible exclusion of Mudslide damage.

WINDSTORM, HAIL, HURRICANE, COVERAGE

This a required peril under both the terms of Freddie Mac and Fannie Mae. There are coastal areas, primarily the Eastern Seaboard and Gulf Coast, where this peril is excluded as standard coverage, and a separate policy must be written. The coverage must match criteria set forth as stated above, and the deductible cannot exceed 5% of the dwelling coverage.

EARTHQUAKE COVERAGE

Currently Earthquake coverage is only required on Single Family Residences in Puerto Rico if the investor is FHLMC. However, the borrower may choose to purchase this coverage. In the event the borrower elects to purchase Earthquake coverage for their protection, Flagstar Bank must be named as mortgagee.

If the Hazard Insurance policy limits or excludes any required perils that are normally included under an extended coverage endorsement, such as windstorm, hail and/or hurricane, smoke, riots, civil disturbances, aircraft, vehicles etc, then a separate policy covering the required perils must be provided covering the items excluded from the homeowner's policy.

There are other hazards for which the investors and Flagstar Bank may require coverage for which are not included on homeowners policies or fire policies. These hazards include Windstorm/Hail perils, Earthquake damage and Mudslide damage.

PLANNED UNIT DEVELOPMENTS

Requirements for 1 to 4-family and multi-family properties apply to similar residential properties within a planned unit development (PUD). The unit owners' own Homeowner's Policy (if not covered by the Master Policy) must follow the same criteria as 1 to 4-family properties. Borrowers must show evidence of hazard



Hazard Insurance Requirements

insurance coverage for all properties with attached units that cover fixtures, equipment, and other personal property inside individual units if they will be financed by the mortgage. Borrowers must show evidence of a "walls-in" coverage policy unless they can document that the master policy provides the same interior unit coverage. The master policy must include replacement of improvements and betterment coverage to cover any improvements that may have made to the unit.

If the individual units are covered by insurance purchased by their respective owners, the PUD homeowner's association must maintain "all risk" coverage for common areas and property for 100% of their insurable value and providing for loss or damage settlement on a replacement cost basis. The association must also obtain any additional coverage commonly required by private mortgage investors for developments similar in construction, location and use, including the following where applicable and available:

- Agreed Amount
- Demolition Cost
- Increased Cost of Construction
- Boiler and Machinery

COVERAGE MINIMUM

The insurer's minimum liability per accident under boiler and machinery coverage must equal the insurable value of the building housing such boiler or machinery or \$2 million whichever is less.

DEDUCTIBLES

Deductibles may not exceed the lower of \$10,000 or 1% of the applicable amount of coverage. Funds for such deductibles must be included in the association's reserves and be so designated.

BLANKET POLICY

Flagstar Bank will also accept blanket insurance covering all units in the PUD as well as insurable common areas and property, if called for in the PUD's constituent documents. Such coverage must meet the requirements applicable to each PUD unit and those applicable to insurable common areas and property. Deductibles are allowed under this blanket coverage provided that the deductible for losses to an individual does not exceed the lower of \$1,000 or 1% of the unit's insurable value. Funds for any deductibles must be included in the association's reserves and be so designated. The PUD's insurance policy must name the insured in substantially the same language indicated below:

"Association of Owners of the [PUD Name] Planned Unit Development for the use and benefit of the individual owners (designate by name, if required by law or the constituent document.)"

CONDOMINIUMS

The condominium owner's association must maintain blanket "all risk" coverage for the following:

- General and limited common elements within the condominium
- Fixtures, machinery, equipment, and supplies maintained for the service of the condominium
- Fixtures, improvements, alterations, and equipment within the individual units

Coverage must be for 100% of the insurable value of the common elements or property described above and provide for loss or damage settlement on a replacement cost basis. An insurance policy that includes either of the following endorsements ensures full insurable value replacement cost coverage:

Hazard Insurance Requirements

- A Guaranteed Replacement cost Endorsement (under which the insurer agrees to replace the insurable property regardless of the cost) and, if the policy includes a coinsurance clause, an Agreed Amount Endorsement (which waives the requirement for coinsurance); or
- A Replacement Cost Endorsement (under which the insurer agrees to pay up to 100% of the property's insurable replacement cost, but no more) and, if the policy includes a coinsurance clause, an Agreed Amount Endorsement (which waives the requirement for coinsurance).

DEDUCTIBLES

Deductibles may not exceed 5% of the applicable amount of coverage. Funds for such deductibles must be included in the associations' reserves and be so designated.

SPECIAL ENDORSEMENTS FOR CONDOMINIUM PROJECTS

- Building Ordinance or Law Endorsement, if the enforcement of any building, zoning or land-use results in loss or damage, increased cost of repairs or reconstruction, or additional demolition and removal costs. (The endorsement must provide for contingent liability from the operation of building laws, demolition costs, and increased costs of reconstruction.); and
- Steam Boiler and Machinery Coverage Endorsement, if the project has central heating or cooling. (This endorsement should provide for the insurer's minimum liability per accident to at least equal 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.

REQUIRED VERBIAGE

The insurance policy of the condominium owners' association must name the insured using substantially the same language as indicated below:

"Association of Owners of the [Condo Name] Condominium for the use and benefit of the individual owners (designated by name, if required by law or the constituent documents)."

Unaffiliated master/blanket insurance policies are not permitted. Unaffiliated projects may not share a single master property hazard insurance policy.

REQUIRED DOCUMENTATION

Evidence of insurance must include all required endorsements, schedules and declaration pages associated with the policy.

HO-6-CONDO UNIT OWNERS COVERAGE

Borrowers must show evidence of hazard insurance coverage for all condominium projects with attached units, including 2 to 4-unit projects that cover fixtures, equipment, and other affixed property inside individual units if they will be financed by the mortgage. Borrowers must show evidence of a "walls-in" coverage policy (commonly known as HO-6 policy) unless they can document that the master policy provides the same interior unit coverage. The master policy must include replacement of improvements and betterment coverage to cover any improvements that may have been made to the unit. The Certificate of building coverage under the master for the association must be collected.

Insurance must be effective not later than the consummation date, i.e. the date the borrower(s) sign(s) the note/security instrument except for escrow state purchases. All escrow state purchases require hazard insurance to be effective prior to or on the disbursement/funding date.

FHA/VA CONDOMINIUM TRANSACTIONS

HO-6 insurance premiums must be included in the borrower's housing ratio; escrows must be collected at closing, and then reflected on the Closing Disclosure. Flagstar will not purchase or fund a loan secured by a condominium if the HO-6 escrows are not collected at closing.

REQUIRED COVERAGE

The HO-6 policy must also include wind and hurricane coverage if the property is located in a hurricane prone area.

COVERAGE AMOUNT

CONVENTIONAL

The coverage amount on Line A (real property, building coverage or dwelling) on the HO-6 (condo unit owners policy) must provide coverage in the amount of at least 20% of the appraised value or replacement cost. If replacement cost is being used, it must be documented with the Hazard Cost Estimator, and supported by the appraisal if one is required per the loan transaction.

- HO-6 insurance premium must be included in the borrowers housing ratio.

FHA/VA

The coverage amount on Line A (real property, building coverage or dwelling) on the HO-6 (condo unit owners policy) must provide coverage in the amount of at least 20% of the total appraised value **or the replacement cost**.

MANUFACTURED HOUSING

REQUIRED COVERAGE

For Manufactured homes, the hazard policy should have coverage equal to at least the lesser of the following:

- the loan amount
- the replacement cost listed on the appraisal

ADDITIONAL POLICIES

Manufactured homes that require flood insurance must have a separate flood policy as flood insurance cannot be included as part of the hazard policy. Flagstar Bank requires that a copy of the Hazard Insurance Policy, and all other applicable policies (flood, earthquake, mudslide, MI, etc.) be included in the closing package delivered to us.

INVESTMENT PROPERTIES

Flagstar has adopted the following guideline to prevent any liability issues that could arise from multiple servicers acquiring the servicing of multiple properties that are insured under one blanket hazard policy: Borrowers who are insuring multiple investment properties and who are running escrow accounts for hazard insurance must provide a separate insurance policy for each property being insured. If, for economic reasons, the borrower requires that multiple properties be covered under one "blanket" policy, they are precluded from escrowing for hazard insurance, and may only escrow for taxes and flood insurance (if required).



Hazard Insurance Requirements

IMPORTANT NOTE

Please be advised that wholesale customers may be responsible for any losses incurred on loans that were closed or funded outside of these insurance guidelines.