

**ABA Telephone Briefing
Flood Insurance Coverage for Condominiums –
A Compliance Challenge Made Simple
Wednesday, August 23, 2006**

QUESTIONS AND ANSWERS

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QUESTIONS	ANSWERS
<p>1. What if the amount of the loan was \$100,000, the replacement cost was \$80,000, what amount of coverage would be adequate?</p>	<p>In all lines of property insurance, a building or contents can only be insured up to its insurable value, which is the amount needed to replace the property if completely destroyed. This is what is meant by insurance to value and 100% replacement cost value (RCV). Therefore, yes, \$80,000 would be an adequate amount of insurance on the building and would also meet compliance requirements</p>
<p>2. Please explain the 80% rule? 3. No one here understood the explanation of what happens when the association does or doesn't have 80% coverage and there is a loss that the association ends up assessing to the unit owners.</p>	<p>The 80% is an insurance rule and not a compliance test. If at the time of loss settlement, the RCBAP limit represents 80% or more of the building replacement cost value the coinsurance penalty would be avoided.</p> <p>Associations should “buy” flood insurance amounts under the RCBAP that represent 100% building replacement cost value in order to still have at least 80% of replacement cost value at a later “time of loss.” If associations only buy 80%, then the limits need monitoring and changing to keep pace with increasing construction costs. NFIP policy limits do not automatically increase to keep pace with inflation.</p> <p>An RCBAP insured to 80% RCV does not automatically meet the compliance requirement when the condominium building or unit is collateral for a loan.</p> <p>To comply with <u>minimal</u> lender compliance requirements you compare three items to find the smallest. The flood insurance amount must be at least the lesser of:</p> <ul style="list-style-type: none"> • 1) the outstanding principal balance of the loan(s); • 2) the buildings RCV/insurable value; or • 3) the maximum amount available under the NFIP. <p>Once the minimum amount needed to fulfill the compliance requirement is identified from the above example, it must be compared to the portion of the RCBAP limit attributable to</p>

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	<p>the unit. If the unit’s portion of the RCBAP equals or exceeds the minimum amount required by law, the loan is compliant, but not necessarily adequately insured against flood loss. If the unit’s portion of the RCBAP is less than the minimum compliance amount, the association should be asked to increase its limits. If the association refuses, the unit owner may be asked to purchase a dwelling policy for the difference. Meeting the compliance requirement does not ensure that the unit is adequately protected against flood damage.</p> <p>Because the unit derives its value as collateral from the common areas of the building, as well as, the unit itself, adequate flood insurance means the condominium building, including its foundation and supporting structures, is insured to its full RCV (meaning the insurable value of the building).</p> <p>FEMA suggests this simple way to calculate both compliance requirements and flood insurance needs for safety and soundness of collateral interests:</p> <p>“Lenders may apply a risk management strategy , as a condition to granting loans secured by condominium units in high flood risk areas, by requiring condominium buildings insured under the RCBAP to their full RCV. The compliance requirement is then equaled or exceeded and no additional calculation is needed.”</p> <p>The following is one of several loss scenarios when the association is insured for less than 80% of RCV:</p> <p>“Example of coinsurance penalty under the RCBAP:</p> <table data-bbox="793 1295 1333 1390"> <tr> <td>Building RCV at time of loss</td> <td>\$12,500,000</td> </tr> <tr> <td>80% of RCV at time of loss</td> <td>10,000,000</td> </tr> <tr> <td>Actual amount of insurance carried</td> <td>6,000,000</td> </tr> </table>	Building RCV at time of loss	\$12,500,000	80% of RCV at time of loss	10,000,000	Actual amount of insurance carried	6,000,000
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	<p>Amount of loss 6,000,000 Loss settlement 3,600,000</p> <p>The amount of insurance carried (\$6,000,000) represents only 60 percent of the required amount (\$10,000,000) to avoid the coinsurance penalty. A shortage of \$2,400,000 therefore results, which represents the coinsurance penalty.</p> <p>Loss Settlement Formula: Ins. Amt. $\frac{\\$6,000,000}{\\$10,000,000} \times \\$6,000,000 = 3,600,000$ Recovery Required \$10,000,000 (80% of RCV at the time of loss)</p> <p>The RCBAP pays for damages to the common area of the building first and then for damage to units. The association would have to make up the difference of \$2.4 million either through assessments, reserves or loans.</p> <p>In a situation where the RCBAP provides less than 80% of the RCV and the unit owners also has building coverage under the Dwelling Policy (DP), the DP will only pay for damage to the building elements of the unit, after the RCBAP limits have been exhausted. The unit owner would have to pay his or her share of the assessments by the association out of pocket.</p> <p>In a situation where the RCBAP is insured, at time of loss, to at least 80% of the full replacement cost of the building or the maximum amount of insurance available under the NFIP, whichever is less, the DP will respond. The assessment coverage under the DP will pay that part of a loss that exceeds 80% of the replacement cost covered by the RCBAP, up to the maximum combined total of \$250,000. The combination of the unit's portion of the RCBAP and Dwelling Policy cannot exceed the program limits of \$250,000 or the unit RCV, whichever is less. The DP will not pay the RCBAP deductible under the</p>

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	assessment coverage.
<p>4. Is it correct that the law states that any walled and roofed (improved) structure with a value greater than \$500 requires flood insurance?</p>	<p>We are not aware of the law containing specific language that you reference in your question regarding a "...structure with a value greater than \$500..." The 1994 Reform Act is designed to strengthen compliance with mandatory purchase requirements. The Act is applicable when a lien is taken as security for a loan transaction on improved real estate (a building) or a mobile home that is located or will be located in a Special Flood Hazard Area of a participating community.</p> <p>However, if the building is of nominal value and specifically excluded as collateral for the loan, flood insurance does not need to be purchased for compliance purposes.</p> <p>You can consult the Mandatory Purchase of Flood Insurance Guidelines booklet available at http://www.fema.gov/business/nfip/mpurfi.shtm for additional information applicable to your situation.</p>
<p>5. Hypothetically, if a Home Owners Association has a \$1,000,000 policy for a building with 10 units – a \$150,000 underinsured position. The outstanding principal balance on the subject loan is \$275,000.</p> <p>When the lender requires a Dwelling Unit Policy, should it be for the full \$250,000 maximum, or would the borrower get credit for the \$100,000 per</p>	<p>A building or contents can be insured up to its insurable value, which is its full replacement cost value, but not beyond. The replacement cost value of the building was not given!</p> <p>The coverage required by law is the lesser of 1.) the maximum amount of NFIP flood insurance coverage available, 2.) the outstanding principal balance of the loan(s), or 3.) the RCV of the building.</p> <p>Also, NFIP insurance follows ownership of buildings. In non-condominium Home Owners Associations (HOAs) unit owners of individually titled town homes or single family buildings, purchase their own flood insurance policy. The HOA can purchase flood insurance on a building it owns such as a clubhouse or office, if applicable.</p>

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<p>unit coverage from the Home Owners Association policy? Consequently, the Dwelling Unit Policy would be only the \$150,000 underinsured amount.</p>	<p>If the building is owned by a residential condominium association, the association would purchase the Residential Condominium Building Association Policy (RCBAP).</p> <p>Please review the rest of this document for answers to your hypothetical questions.</p>
<p>6. Scenario: A condominium has a replacement value of \$5,000,000. There are 25 units in the complex. This results in a per unit placement cost of \$200,000.</p> <p>a. If the association carries the maximum amount of flood insurance (\$5 million), then FEMA considers the complex fully covered. If each of the units sells for \$275,000 and the borrower takes a loan from a bank for \$250,000, does the bank consider the borrower fully covered, or does the bank require the borrower to take out an additional dwelling policy for \$50,000 to cover the gap between the condo coverage and the loan amount?</p> <p>b. Now, same scenario. This time the</p>	<p>Question a: In the situation you’ve explained the \$5,000,000 purchased under the RCBAP is the appropriate amount of insurance. Flood insurance amounts are not based on the market price of the units, which is \$275,000 each. Instead, the units need to be insured to their replacement cost value (RCV) of \$200,000 each. So yes, the unit would be fully covered. While \$250,000 is the maximum available under the NFIP per unit, the building cannot be insured for more than its RCV. The amount of coverage required by law is “the <i>lesser of</i> the amount of the loan(s); the RCV of the building or the maximum amount available under the NFIP.”</p> <p>Question b: “Under this scenario, the \$4,000,000 RCBAP (\$160,000 of which would be applicable to the unit) does not meet the compliance test. The required amount for compliance purposes is the lesser of: the outstanding loan(s) balance; insurable value of the building (which is the same as 100% of building replacement cost value) or the maximum available under the NFIP. The answer to the compliance test is \$200,000 and is also the insurable value of the unit. The RCBAP insured to \$5,000,000 fulfills the compliance requirement.</p> <p>The RCBAP insured to 80% of building replacement cost, at the time of loss, avoids the coinsurance penalty, but can fail the compliance test. Ideally, associations should insure their</p>

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<p>condo association takes a policy out for \$4,000,000. Again, according to FEMA, the complex is “adequately” covered as this represents 80% of the replacement value. The bank makes the same loan. Does the bank consider the borrower fully covered now, or does the bank require the borrower to obtain a dwelling policy for \$40,000 (difference between \$200,000 and \$160,000), or a policy for \$90,000 (difference between \$250,000 and \$16,000)?</p> <p>c. Again, same scenario. This time the condo association takes a policy for \$3,000,000. FEMA does not consider the complex to be “adequately” covered. According to the insurance guidelines, this is when the penalty kicks in. In this case, each individual unit is insured for approximately \$120,000 (far below the replacement cost per unit) and significantly below the loan amount. So, in this case, does the bank require the borrower to obtain a dwelling policy for</p>	<p>buildings to 100% of the building RCV. An association that decides to “purchase only 80%” of building replacement cost value is unlikely to avoid the coinsurance penalty, at a later time of loss, because of increasing construction costs.</p> <p>In this scenario, if the association refused to increase the amount of coverage under its RCBAP to \$5 million (RCV), then the borrower should be required to purchase an individual Dwelling Policy (DP) in the amount of the \$40,000 shortfall per unit. This should satisfy the statutory requirement. Under the NFIP insurance rules (which are separate from mandatory purchase requirements) there are some limitations on how coverage under the DP actually works. Some of these are related to how much coverage has been purchased by the association on the RCBAP, which may limit the actual payout for a claim under the DP.</p> <p>See examples in <i>Condominium Buildings and Other Common Ownership Entities</i> document available online at: www.fema.gov/plan/prevent/floodins/condo_time.shtm</p> <p>Question c: “Same as the response to your #2 scenario above, except that the amount of coverage that should be required on the DP is \$80,000 to meet the mandatory purchase requirement.</p> <p>When an association insures for flood under the NFIP’s RCBAP, and it insures for less than the lesser of 80% of the buildings RCV or the maximum amount of insurance available under the NFIP (\$250,000 x the no. of units), any payout under the DP will also be limited.</p> <p>Lenders should have two concerns:</p> <ol style="list-style-type: none"> 1. Achieving minimal compliance requirements, and/or 2. Ensuring your collateral is adequately protected in accordance with the practices of

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<p>\$80,000 or \$130,000? In either case, the chances of the borrower being able to collect on such a policy are rather remote, if I understand the process correctly?</p>	<p>your regulatory authority. If protecting your collateral located in a high flood risk area is your objective, requiring an RCBAP insured to its full replacement cost value, as a condition of making a loan, is the reasonable risk management strategy. Your regulatory authority should be consulted for guidance.</p>
<p>7. One of the questions directed to one of the panelists hit very close to home – the question regarding a shack on a large piece of property, and if flood insurance was required. She first said no, then after thinking about it, suggested the caller referred to the loan docs and how the loan was originally set up.</p> <p>We have a loan secured by a piece of property on Siesta Key. There is a structure on the property which is to be demolished. All the windows and doors on the house have been removed, but the permitting is taking longer than expected due to the house being historical. The demolition is expected to be completed within two months.</p> <p>At the onset of the loan the borrower was told he needed flood insurance, but</p>	<p>If the building is of nominal value and specifically excluded as collateral for the loan, flood insurance does not need to be purchased for compliance purposes. If the structure is being demolished then it would seem that it would not be practical to include it as part of the security for the loan, If the land under such a structure were a part of the collateral security for the loan, no flood insurance would be required on that land, as land is uninsurable under the NFIP.</p>

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<p>it never happened and he’s still fighting us over it. We know flood insurance is required on any structure with a value over \$500, but due to the situation, is there anything we can do to avoid the insurance (We don’t think there is, but we had to ask).</p>	
<p>8. One of the panelists stated that the minimum amount required by law equals the amount of the loan.</p> <p style="padding-left: 40px;">How would this apply as the loan gets closer to maturity?</p> <p>9. The maximum coverage is \$250,000. Even if the loan balance is greater than \$250,000, we would only be required to ensure that there is a max \$250,000 coverage on the unit, correct?</p> <p style="padding-left: 40px;">It was stated that if the amount of coverage on the flood policy divided by the number of units exceeds the loan balance, then it is compliant.</p> <p style="padding-left: 40px;">What if the required coverage (amount of coverage on the flood policy divided by the number of units) is less than the</p>	<p>The appropriate “minimum” building flood insurance coverage amounts, required for meeting compliance requirements and flood insurance protection needs, have been provided in the previous answers.</p> <p>It is also important to note that property insurance protects the building and while the lender’s financial interest in the building reduces over time the borrower’s interest/equity in the building increases. Lenders may exceed “minimal” flood insurance amounts that meet compliance requirements and instead require flood insurance amounts that adequately protect lenders and borrowers, as is the practice for other lines of insurance. Mortgage documents generally provide such options.</p> <p>The current “maximum” amount for building coverage that can be purchased on a high-rise or low-rise condominium under the RCBAP is the RCV of the building and supporting foundation or the total number of units in the condominium building times \$250,000, whichever is less. The coverage required by law is <u>at minimum</u> the lesser of 1) the maximum amount of NFIP flood insurance coverage available, 2) the outstanding principal balance of the loan(s), or 3) the RCV of the building.</p> <p>Keep in mind that market values or loan balances can include uninsurable values of land or location. That explains why, under a flood risk management strategy, the RCV of the</p>

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<p>loan balance and the loan balance is greater than \$250,000? Are you stating that the required coverage should be equal to or greater than the loan balance, up to \$250,000?</p> <p>10. How do you account for the inflated cost of property location which is included in the loan amount?</p> <p>The loan amount is inflated to include property location yet the cost of replacing the building remains the same regardless as to where the property is located.</p>	<p>building, up to the NFIP program limits available for that type of building, is the appropriate flood insurance coverage amount.</p> <p>The NFIP does not insure land.</p>
<p>11. Apartment Building</p> <p>Please confirm or clarify. Maximum NFIP coverage for apartment buildings of 2 or more units is \$250,000?</p>	<p>Yes, the maximum amount of NFIP coverage available for an apartment building of 2 or more units is \$250,000.</p>
<p>12. I still would like clarification on the concept of requiring 80% of replacement cost on high rise condos with cement parking on the first 3 floors and the 100 year flood plain elevation estimated not</p>	<p>The RCBAP insured to 80% or more of its RCV, at the time of loss, avoids the coinsurance penalty. It is an insurance rule and not a compliance tool.</p> <p>While considering safety and soundness or compliance of collateral interests in high flood risk areas, it may not be practical for lenders to speculate about the degrees of flood risk. If</p>

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<p>to be above a few feet.</p> <p>How do we justify asking to cover nearly the entire replacement coverage when we have the capabilities to fairly accurately assess the potential damage to a building if a flood were to occur?</p> <p>Also, I don't think it's accurate to draw a comparison between flood and fire policy since I believe we have better tools in order to predict and estimate the occurrence. While this is not completely fool proof it provides greater leverage in managing risk and cost.</p> <p>What are your thoughts?</p>	<p>parking is the only use of the first three floors, the risk of flood damage would be lessened although not eliminated. The foundation support system is at risk and also any machinery and equipment on those lower floors used to run the building.</p>
<p>13. My understanding from the call is that the 80% rule as written in the regulation is a rule for the insurance companies and not a rule to be followed by the lender.</p> <p>Would the following statement be correct with respect to the lender's compliance with the regulation: "Under the NFIP Act, a lender must ensure that</p>	<p>Yes, the 80% rule is an insurance rule that has loss settlement implications for the insured (lenders and borrowers).</p> <p>There are two separate issues, minimal compliance requirements and adequate flood insurance protection that concern lenders.</p> <p>The RCBAP insured to at least 80% RCV, at the time of loss, avoids the coinsurance penalty, but can in some situations fail the compliance test. The required amount for compliance</p>

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<p>the borrower provides flood insurance coverage in an amount that covers.</p>	<p>purposes must at least be the lesser of:</p> <ul style="list-style-type: none"> ▪ the outstanding principal balance of the loan(s); ▪ full building replacement cost value (RCV); or ▪ the maximum available under the NFIP (\$250,000 X number of units). <p>The law establishes a "minimum", not a maximum" on how much insurance a lender may require.</p>
<p>14. We are permitting our regulated lenders to use fire insurance replacement cost value (RCV) as a proxy for flood insurance RCV. However, as you have explained, RCV for fire insurance does not include the cost of the building foundation that should be included in the RCV for flood insurance. Will the NFIP consider 80 percent of the fire insurance RCV sufficient to meet the minimum RCBAP coverage to avoid co-insurance penalty? Or, will it be necessary to purchase RCBAP coverage to 85, 90, 95 or 100% of fire insurance RCV to avoid co-insurance penalty?</p>	<p>Using the fire policy insurance amount as a guide when determining the insurable value (replacement cost) of a condominium building is a practical approach. As you observed, the replacement cost value of condominium building foundations and supporting structures need to be included in the RCBAP insurance amount. The cost of a building support foundation system varies depending upon the building type (e.g. single family, multi-family low rise and multi-family high rise). It is a certain percent of the overall building's Replacement Cost Value (RCV). Obviously, low rise condominium buildings could have more foundation area than high rise. If an association uses the fire policy's building valuation, that value is understated by the value of the foundation support system. If the association purchases and maintains coverage on an RCBAP at only 80% of the buildings RCV, based on the fire policy, at the time of loss, a co-insurance penalty is likely.</p> <p>Considering the subjective nature of determining RCV, it is much safer for the association to insure to 100% of the building RCV, including the building supporting foundation and to plan to increase the limits as necessary. Such a risk management strategy can provide better protection for lenders, borrowers, associations and insurance agents.</p> <p>Ideally, the agent who writes the fire policy will also write the RCBAP and can use the same mechanism to develop the replacement cost of foundations that was or will be used for the</p>

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	fire policy.
<p>15. Please confirm or clarify our understanding that a condo unit owner can purchase Dwelling Policy (DP) coverage to supplement deficient RCBAP coverage (i.e. RCBAP < 80% of RCV and less than \$250,000 X the number of units in the condo building). However, if the RCBAP coverage is deficient, the DP will not cover assessments. In such cases, DP will cover only the part of a loss that exceeds 80% of RCV. Interior of the unit may be insured if the interior suffered flood damage.</p>	<p>The Dwelling Policy can be used to fulfill the compliance requirement. Please see the examples in <i>Condominium Buildings and Other Common Ownership Entities</i> document available online at: www.fema.gov/plan/prevent/floodins/condo_time.shtm for settlement outcomes under the DP when the RCBAP is deficient.</p>
<p>16. Construction loans and flood insurance: It is clear in the Guidelines (yellow book) that you need flood insurance prior to or at closing and our insurance contacts have told us you can obtain a policy but the effective date won't be until actual construction of the four walls or delivery of materials occurs. In the Webinar, you indicated the guidelines were not accurate and would be updated. I need to</p>	<p>The <i>Mandatory Purchase of Flood Insurance Guidelines</i> booklet (yellow book) is being revised and updated by FEMA. Due in part to pending legislation, the expected date for release of this document is anticipated mid/late 2007.</p> <p>That section of the <i>Guidelines</i> that addresses the issue of Buildings in the Course of Construction will provide additional clarification that one option would be to require evidence of flood insurance at loan closing. Another option would be to require the purchase of flood insurance at one of the subsequent incremental disbursement of funds, when the actual construction of an insurable building will begin. The latter option would require the lender to monitor the loan to verify that coverage has been purchased and is adequate.</p>

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<p>be sure as we are in the midst of changing over to obtaining it at closing.</p>	<p>FEMA encourages lenders to consult with their Federal regulatory entity to determine at what point they would require the purchase of flood insurance. While FEMA is responsible for administering the National Flood Insurance Program, it is not a regulatory entity for the supervision of lending institutions.</p> <p>Certain underwriting restrictions will still apply. For example, if the lowest floor, including a basement floor, of a building under construction in any A Zone or V Zone will be below the BFE, the building must be walled and roofed before coverage can begin.</p>
<p>17. Construction Loan – If we don't require the flood insurance at closing because there is no insurable interest, how will you know when to require the flood insurance coverage? What if the building is under roof before they ask for their first draw?</p>	<p>Lenders and their regulatory authorities should decide when their exposure begins and establish flood insurance purchase requirements accordingly.</p> <p>If it is determined that there will be an insurable building in place prior to the initial draw, flood insurance should be required at closing. Consult your regulatory entity for final guidance in this regard to determine at what point they require insurance to be in place.</p> <p>See previous question.</p>
<p>18. Construction Loans – Below you will see a question that was posed to the Fed and the response to the question. As you can see, they are expecting the policy at closing of construction loans using an estimate of the elevation until the actual elevation can be shot again once the slab is poured.</p>	<p>Please read the previous answers.</p> <p>The elevation information is <u>initially</u> taken from the building drawings/blue prints. FEMA does not require a slab be poured. When the building is complete a surveyor is hired to take the elevation in order to renew the flood insurance policy.</p> <p>Proof of flood insurance coverage may not be required on all construction loans. The law does not specifically address construction loans. Consult your regulatory entity for final guidance in determining at what point they require insurance to be in place.</p>

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QUESTIONS	ANSWERS
<p>Are we required to have evidence of flood insurance on all construction loans, both consumer and commercial before the loan closes even though there is no building to insure.</p> <p>Also, what about the large commercial construction lines for builders? They usually have a large number of homes to be built, and it could be quite a while before all the homes are actually are built.</p>	
<p>19. On construction loans where improvements were not to be started for several weeks and the first draw was purchasing the land only, we asked a question of a FEMA representative who was speaking at a Compliance conference I attended. We asked if we could close the loan without flood insurance in place and monitor the loan. The lender is instructed to not allow subsequent draws unless the borrower has adequate flood insurance in place. We monitor these loans monthly. The FEMA Rep stated that this was fine. What is your opinion?</p>	<p>While FEMA is responsible for administering the NFIP, it is not a regulatory entity for the supervision of lending institutions. Therefore, we recommend that you consult your Federal regulatory entity for final guidance in determining at what point they require flood insurance to be in place. Your regulatory entity is responsible for compliance exams, not FEMA.</p>

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QUESTIONS	ANSWERS
<p>20. SCENARIO: Project is new construction, 300 units, three (3) phases. Phase (1) is complete with closings scheduled within one week. The developer is still in control of the HOA. The name insured on the master insurance declaration page is Joseph Smith Builders LLC.</p> <p>QUESTION: Inasmuch as the homeowners association has not yet been formed is it necessary to add the name of the condominium (ABC Towers) as additional insured as the developer would be the only party to receive insurance proceeds if physical damages were to occur to the buildings?</p> <p>****The crux of the question is that we will have unit owners with no apparent coverage.****</p>	<p>If the condominium is an association that has not been formed then it does not exist and can't be named insured. Also, the insurance responds to the type of association, condominium or homeowners association. In this situation the developer can purchase flood insurance protection for all buildings, including those in the course of construction but only under the NFIP's General Property form, one building per policy and up to the maximum NFIP limit of \$250,000 for a residential building.</p> <p>For the completed units, if the development is going to be a non-condominium homeowners association, with individually titled town homes or single family buildings, the unit owners can each purchase flood insurance protection for their own units under the Dwelling Policy. Homeowners associations insure commonly owned buildings such as the club house and unit owners each insure their own unit.</p> <p>If the development is going to include eligible residential condominium buildings, as soon as the condominium association is formed, each of the General Property forms can be cancelled and rewritten as Residential Condominium Building Association Policies (RCBAPs) in the name of the condominium association. RCBAP building coverage applies to the commonly owned building elements and the building elements within units. If the RCBAP is insured to the full replacement cost value, the association will have met its fiduciary responsibility to protect the unit owners, and then the unit owners and lenders should be adequately protected to the extent possible under the NFIP program limits. The maximum RCBAP limits are the lesser of replacement cost value of the building, including its foundation and supporting structure or \$250,000 times the number of units. It should be noted that the RCBAP includes a coinsurance penalty if at the time of loss the amount of insurance is less than 80% of the replacement cost value, which could significantly reduce the loss settlement. Residential condominium unit owners have an undivided interest in the condominium building, as well as in their own units. Obviously, the unit owner can't insure</p>

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QUESTIONS	ANSWERS
	<p>the condominium building, but should ensure that the association has purchased adequate insurance in accordance with its by-laws and/or State requirements.</p> <p>Condominium unit owners can purchase building coverage under the Dwelling Policy when the association’s RCBAP is not insured to 100% replacement cost value or \$250,000 times the number of units, whichever is less. The Dwelling Policy can also be purchased when there is no RCBAP. Such coverage combinations RCBAP/Dwelling Policy should be discussed with a qualified insurance agent. In certain situations it may benefit the unit owner to carry supplemental building coverage under the Dwelling Policy. However, coverage shortfalls that result because of the deductible or coinsurance penalty under the RCBAP are not covered by the Dwelling Policy. A residential condominium unit owner who has purchased flood insurance protection for his or her unit is not protected unless the condominium association has adequately insured the building.</p> <p>In the case of construction loans, lenders should consult their Federal regulatory agencies to determine when flood insurance purchase should be required. This can be at the time of closing, even though there may be no insurable property in existence. Lenders/regulators may allow the required coverage to be purchased at one of the subsequent incremental disbursement of funds when the actual construction of insurable buildings will begin.</p>
<p>21. If the flood insurance policy hits the expiration date and a renewal policy is not provided by the flood insurance company, do we still have to provide force place notification letters to the borrower notifying them of the need to have flood insurance and the need to</p>	<p>Yes, the notice requirement applies. The lender can require the purchase of an individual unit Dwelling Policy (building coverage) for compliance purposes.</p> <p>The mandated flood insurance requirement applies to the lender and borrower and the borrower was notified that flood insurance for the term of the loan was a condition of the granting the loan.</p>

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QUESTIONS	ANSWERS
force place after 45 days even though the borrower isn't primarily responsible (the borrower pays their condo association dues but the flood insurance company is really the one who isn't complying so it seems harsh to notify the customer or the force place policy)?	

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Please contact one of the FEMA staff listed below for clarification or additional, related questions

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