

# PFI Advisory

June 25, 2010

**Special Attention:** PFI MPF<sup>®</sup> Program Management and Origination Management

**Subject:** Flood Insurance Requirements during NFIP Lapse

**Note:** This PFI Advisory applies to the MPF 100, Original MPF, MPF 125 and the MPF Plus products (not applicable to the MPF Xtra<sup>®</sup> product).

The most recent authorization for the National Flood Insurance Program (NFIP) to issue new flood insurance policies expired on May 31, 2010. Until Congress reauthorizes the NFIP, the Federal Emergency Management Agency (FEMA) may not issue new policies, increase coverage on existing policies, or issue renewal policies.

During the NFIP lapse period, subject to the terms of this PFI Advisory, PFIs may continue to deliver loans in flood zones without NFIP flood insurance to their MPF Bank.

PFIs must continue to make flood zone determinations, provide the required notices to borrowers, and comply with the flood insurance guidelines provided in Origination Guide Chapters 15.3, 27.8 and 27.9 during the lapse period. For mortgaged properties subject to mandatory flood insurance coverage, the PFI must take all necessary steps to obtain flood insurance. The PFI must maintain the required documentation in the mortgage file in order to facilitate the issuance of coverage once the NFIP insurance authority is renewed. PFIs must have a system in place to ensure that NFIP flood insurance policies are obtained and in force as soon as they are available following Congressional reauthorization of the NFIP.

As an alternative to NFIP coverage, PFIs may, where available, require the borrower to obtain private flood insurance.

**A flood-related loss may occur to a mortgaged property that is subject to mandatory flood insurance coverage, prior to the issuance of a flood insurance policy. Notwithstanding the provisions of this PFI Advisory, the PFI remains obligated for all representations and warranties concerning the existence of a NFIP flood insurance policy. Therefore, if NFIP flood insurance does not retroactively cover the mortgaged property, the flood-related loss must be borne by the PFI. However, if the NFIP flood insurance does cover the damage to the mortgaged property, the flood-related loss will be deemed a realized loss under the MPF credit risk sharing structure of the applicable MPF Mortgage Product.**

We appreciate the opportunity to be of service and look forward to continuing to serve your mortgage loan funding needs.

**If you have any questions, please contact your MPF Bank Representative or call the MPF Customer Support Desk at 877-INFO-MPF (877-463-6673).**

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