

**U.S. DEPARTMENT OF HOUSING AND URBAN  
DEVELOPMENT**

WASHINGTON, DC 20410-8000

ASSISTANT SECRETARY FOR HOUSING-  
FEDERAL HOUSING COMMISSIONER

**December 11, 2012**

# Mortgagee Letter 2012-28

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

**Subject** Restatement and Update of Flood Zone Requirements for Federal Housing Administration (FHA) Insured Mortgages

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|----------------|------------------------|
| <b>Purpose</b> | This Mortgagee Letter: |
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- Supersedes Mortgagee Letter 2010-43 and its attachment in its entirety;
- Restates and updates guidance concerning documentation provided to evidence flood zone determination; and
- Consolidates Mortgagee Letter 2009-37.

**New Guidance: Responsibility for** The restated and updated guidance contained in this Mortgagee Letter is as follows:

- |                                                                                           |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|-------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Determining<br/>Property<br/>Eligibility in<br/>SFHA<br/>Handbook<br/>4155.2 4.3.a</b> | <ul style="list-style-type: none"> <li>• FHA requires all mortgagees obtain a flood zone determination on all properties. The documentation provided to evidence the flood zone determination and retained in the case binder must clearly indicate that the flood zone determination service is for the life of the loan.</li> <li>• Properties within a designated Coastal Barrier Resource System (CBRS) unit are not eligible for an FHA-insured mortgage.</li> <li>• HUD will incorporate this restated and updated guidance into the relevant FHA Single Family On-Line Handbook.</li> </ul> |
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| <b>Effective Date of New Guidance</b> | The new guidance noted above is effective for all case numbers assigned sixty days after date of Mortgagee Letter. |
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**Attachments**

The attachments include:

- Attachment I: A chart demonstrating the Flood Zone Requirements within a given scenario.
  - Attachment II: Revised Handbook 4155.2, Chapter 4, Section 3.
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**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.

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**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 access this number via/TTY by calling the Federal Information Relay Service at (800) 877-8339.

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**Signature**

Carol J. Galante  
Assistant Secretary for Housing – Federal Housing Commissioner

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Attachments

## ATTACHMENT I – Appendix: Flood Zone Requirements

|                                                                                             | New & Proposed Construction                                                                        | Existing Construction                                                                                           | Manufactured Homes                                                                                 | Condo Projects                                                                                                  | All Other Properties                                                                                            |
|---------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------|
| <b>Life-of-Loan Flood Zone Determination</b>                                                | <b>Required</b>                                                                                    | <b>Required</b>                                                                                                 | <b>Required</b>                                                                                    | <b>Required</b>                                                                                                 | <b>Required</b>                                                                                                 |
| <b>Property Located Within Coastal Barrier Resource System (Protected Areas)</b>            | <b>Property Not Eligible for FHA Insurance</b>                                                     | <b>Property Not Eligible for FHA Insurance</b>                                                                  | <b>Property Not Eligible for FHA Insurance</b>                                                     | <b>Property Not Eligible for FHA Insurance</b>                                                                  | <b>Property Not Eligible for FHA Insurance</b>                                                                  |
| <b>Property Located Within Special Flood Hazard Area (SFHA)</b>                             | <b>Property Not Eligible for FHA Insurance</b>                                                     | <b>Adequate Flood Insurance for term of loan (if insurance under NFIP not available, property not eligible)</b> | <b>Property Not Eligible for FHA Insurance</b>                                                     | <b>Adequate Flood Insurance for term of loan (if insurance under NFIP not available, property not eligible)</b> | <b>Adequate Flood Insurance for term of loan (if insurance under NFIP not available, property not eligible)</b> |
| <b>Unless</b>                                                                               | <b>Unless</b>                                                                                      | <b>Unless</b>                                                                                                   | <b>Unless</b>                                                                                      | <b>Unless</b>                                                                                                   | <b>Unless</b>                                                                                                   |
| <b>Letter of Map Amendment (LOMA) or Letter of Map Revision (LOMR)</b>                      | <b>Property Eligible for FHA Insurance</b>                                                         | <b>No Flood Insurance Required</b>                                                                              | <b>Property Eligible for FHA Insurance</b>                                                         | <b>No Flood Insurance Required</b>                                                                              | <b>No Flood Insurance Required</b>                                                                              |
| <b>Or</b>                                                                                   | <b>Or</b>                                                                                          | <b>Or</b>                                                                                                       | <b>Or</b>                                                                                          | <b>Or</b>                                                                                                       | <b>Or</b>                                                                                                       |
| <b>FEMA National Flood Insurance Program (NFIP) Elevation Certificate (FEMA Form 81-31)</b> | <b>Property Eligible for FHA Insurance. Flood Insurance Required (if property remains in SFHA)</b> | <b>Flood Insurance Required (if property remains in SFHA)</b>                                                   | <b>Property Eligible for FHA Insurance. Flood Insurance Required (if property remains in SFHA)</b> | <b>Flood Insurance Required (if property remains in SFHA)</b>                                                   | <b>Flood Insurance Required (if property remains in SFHA)</b>                                                   |

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## Attachment II, Handbook 4155.2 Chapter 4.3.

### 3. Requirements for Properties in Special Flood Hazard Areas (SFHA)

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#### 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 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,
- required amount of insurance coverage,
- flood zone documentation,
- properties within a Coastal Barrier Resource System (CBRS) and,
- instructions to FHA Roster Appraisers.

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

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**4155.2 4.3.a  
Responsibility  
for Determin-  
ing Property  
Eligibility in  
SFHA**

The lender is responsible for determining if a property is located in a special flood hazard area (SFHA) as designated by the Federal Emergency Management Agency (FEMA). Lenders are required to obtain flood zone determination services, independent of any assessment made by the appraiser to cover the life of the loan. The documentation provided to evidence the determination must clearly indicate that the flood zone determination service is for the life of the loan.

Prior to closing, 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 onto the borrower.

Lenders and servicers must assure that borrowers maintain adequate flood insurance during the life of the mortgage. Insurance must be obtained if the lender or servicer becomes aware that the building involved subsequently becomes part of an SFHA due to a Flood Insurance Rate Map (FIRM) revision. Lenders 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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### 3. Requirements for Properties in Special Flood Hazard Areas (SFHA), Continued

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**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 a Coastal Barrier Resource System (CBRS).

In 1982, Congress enacted the Coastal Barrier Resources Act (CBRA) Public Law 97-348; 96 Stat. 1653; 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 a CBRS by owners of such properties.

CBRS boundaries and Otherwise Protected Areas (OPAs) 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/cbra/>.

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

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**4155.2 4.3.c**  
**Eligibility for**  
**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 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. The flood elevation 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.

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

**Reference:** Additional information regarding FEMA guidelines can be found at: <http://www.fema.gov/national-flood-insurance-program-2/flood-hazards-special-concern>.

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

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**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.
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**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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**4155.2.4.3.f  
Eligibility 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 flood insurance coverage must protect the interest of borrowers who hold title to an individual unit, 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 lender is responsible for ensuring that the HOA obtains and maintains adequate flood insurance on buildings 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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### 3. Requirements for Properties in Special Flood Hazard Areas (SFHA), Continued

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#### 4155.2.4.3.g Eligibility for Manufactured Homes in SFHAs

24 CFR §§ 203.43f (c) (i) and (d) (ii) require that the finished grade level beneath the manufactured home 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 are located within a SFHA (Zones A or V), the property is *not* eligible for FHA mortgage insurance without:

- 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 the finished grade beneath the 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 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.

**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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#### 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)], national flood insurance must be obtained and maintained in an amount equal to the *least* of:

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

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

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#### 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,
- LOMA, or
- 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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#### 4155.2.4.3.j, Instructions to FHA 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 form, as 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 U.S. Fish and Wildlife Service mapping database is an additional source that identifies 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 Handbook 4150.2, Valuation Analysis for Single Family One-to-Four Unit Dwellings.

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