HOMEOWNERS INSURANCE REQUIREMENTS

Flanagan State Bank requires the following for Homeowners Insurance Declarations/Binders

- Property address to match appraisal address exactly
- Deductible to be indicated on dee page - cannot exceed 5% of dwelling or $5000, whichever is less (please note, Freddie Mac loans do not limit the deductible to $5000. It simply cannot exceed 5% of dwelling)
    - USDA deductible not to exceed ***the greater*** of either $1000 or 1 percent of the policy coverage
- Borrowers' names to be spelled correctly
- FSB Loan Number to be identified on the binder or Dec Page
- Mortgagee Clause to read exactly:

  Flanagan State Bank
  ISAOA
  333 Chicago Road
  PO Box 302
  Paw Paw, IL 61353

- Dwelling coverage to be indicated. Must cover loan amount OR
    - All government programs, including USDA - guaranteed full replacement coverage is acceptable in lieu of dwelling coverage covering loan amount. Coverage must clearly show this is FULL replacement coverage. If the coverage amount is limited in amount or has a cap, this may not be acceptable. The policy must provide verbiage for clarification of the amount of coverage.
      *Note – As a general rule, we may not subtract site value from the total appraised value on government loans to deviate from FULL replacement coverage. However, there are some rare instances when we may be able to. If you have tried to adhere to the above policy and an HOI can still not be obtained with enough dwelling coverage, please email underwriting@flanaganstatebank.com and we will see if an exception may be acceptable.

    - Conventional Loans: The insurance limits must at least equal the higher of:
      The unpaid principal balance (UPB) of the Mortgage OR,
      80% of the full replacement cost value (RCV) of the insurable improvements

RCV is the amount of money needed to repair the insurable improvements at current prices of building supplies at time of damage, without any deduction for depreciation.

The coverage required in accordance with the above formula must not exceed the replacement cost of the insurable improvements, even when the UPB of the Mortgage exceeds such replacement cost.

RCV (Replacement cost Value) Is determined by Either the Replacement cost estimator provided by the insurance company OR Taking the Cost estimate from the Appraisal and subtracting the land value. If both documents are available the highest will be used. The table below describes how to calculate the required amount of insurance

Step	Description
1	Determine the UPB and the RCV.
2	If the RCV is less than the UPB, the required insurance coverage is the RCV, and no further calculation is required. If the RCV is greater than the UPB, go to step 3.
3	If the RCV is greater than the UPB, calculate 80% of the RCV and then go to step 4 or 5.
4	If this calculation is equal to or less than the UPB, the UPB is the amount of coverage required or
5	If this calculation is greater than the UPB, the 80% calculation is the amount of coverage required.

Examples:

	Property A: The RCV is less than the UPB	**Property B: 80% of the RCV is equal to or less than the UPB**	**Property C: 80% of the RCV is greater than the UPB**
RCV	$80,000	$90,000	$90,000
UPB	$85,000	$80,000	$65,000
80% of replacement cost	$64,000	$72,000	$72,000
Required insurance coverage	$80,000	$80,000	$72,000

- USDA - if the appraisal has the Total Estimate of Cost new completed and it is less than the Total Loan Amount, then we can use this information to determine the minimum amount of Dwelling Coverage needed.
- FHA/VA- Insurance limits must be at least equal to the unpaid principal balance of the mortgage OR indicate guaranteed replacement cost. A different calculation for coverage may be available on a case by case basis through management.

- Effective date to be on or before closing date. Purchase loans must have effective date to show the same month as the closing.
- Must have paid receipt or pay premium at closing for 1 year (purchase or refinance)
- Condo - must have H0-6 insurance to cover 20% of appraised value
- Condo Master Insurance must show unit owner name and unit. Must have $1,000,000 in building coverage and liability coverage.

FLOOD INSURANCE REQUIREMENTS

***Application Must be signed by borrower!

- Government Loans (USDA, FHA and VA) require use of NFIP Flood Insurance and will not accept a private flood insurance vendor. Conventional loans may use NFIP or Private vendor for flood insurance as long as the requirements noted here are met.
- Dwelling to cover loan amount. Unless loan amount is over $250,000. $250,000 is the max FEMA allows. RD requires total estimated cost new on cost approach section of appraisal.
- Flood zone to be indicated and must match flood zone on appraisal and flood cert.
- Unless a higher maximum amount is required by state law, the maximum allowable deductible is $5000.
    - o USDA will remain at the above requirement of the deductible not to exceed ***<u>the greater</u>*** of either $1000 or 1 percent of the policy coverage
    - o USDA Flood Insurance must cover the lesser of the outstanding principal balance of the loan or the maximum amount of coverage allowed under FEMA's National Flood Insurance Program (NFIP)
- All the other homeowner's insurance requirements apply to flood insurance as well, see above.
- Condos in a Flood Zone will require proof of flood insurance for the HOA and depending on the coverage amounts, may require additional coverage from the borrower.
- Rating of insurer - required insurance must be provided by one of the following insurers:

1) An insurer with a current rating that meets the requirements below:
    a. For an insurer rated by A.M. Best Company (A.M. Best), a minimum Financial Strength Rating of B+/III, or for a non-U.S. insurer, A/VIII, as reported online at www.ambest.com
    b. For an insurer rated by Demotech, Inc., a minimum Financial Strength Rating of A as reported online at www.demotech.com
    c. For an insurer rated by Standard & Poor's, a division of The McGraw-Hill Companies ("Standard & Poor's"), a minimum Financial Strength Rating of BBB as reported online at www.standardandpoors.com
2) An insurer with coverage that is guaranteed by a reinsurer under all of the following conditions:
    a. The reinsurer's current rating meets the requirements below:
        i. For a reinsurer rated by A.M. Best, a minimum Financial Strength Rating of B+/III, or for a no-U.S. reinsurer, A/VIII; or
        ii. For a reinsurer rated by Standard & Poor's, a minimum Financial Strength Rating of BBB
    b. The reinsurer assumes by endorsement to give the policyholder, the Seller/Servicer and insurer 90-day written notice before canceling or otherwise terminating the guarantee
    c. The above endorsements are attached to each property insurance policy accepted by the Seller/Servicer on account of the endorsements
3) A state insurance pool created by statutory authority to provide insurance for geographic areas or insurance lines which suffer from lack of voluntary market availability (such pool may be designated as a property insurance plan, a Fair Access to Insurance Requirements (FAIR) plan, an underwriting association, a joint underwriting association or an insurance authority)

4) A non-admitted insurer with a current rating that meets the requirements below:
    a. For an insurer rated by A.M. Best, a minimum Financial Strength Rating of A, or
    b. For an insurer rated by Standard & Poor's, a minimum Financial Strength Rating of AA
5) An insurer with coverage that is guaranteed by the National Flood Insurance Program (NFIP) under a Standard Flood Insurance Policy issued pursuant to the National Flood Insurance Act of 1968, as amended.

Insurers rated by more than one rating company need only meet one of the rating requirements.