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May 15, 2008

REGIONAL LOAN CENTER MEMORANDUM NO. 08-01

TO: ALL LENDERS, HOLDERS, AND SERVICERS

SUBJ: HAZARD INSURANCE REQUIREMENTS

### **PURPOSE**

Both Title 38 CFR 36.4326 and 38 CFR 36.4829 impose a responsibility upon holders to require insurance policies to be procured and maintained in an amount sufficient to protect the security against the risks or hazards to which it may be subjected to the extent customary in the locality. This memorandum covers all properties under the jurisdiction of the St. Paul Regional Loan Center (RLC), including: **Illinois, Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, South Dakota, and Wisconsin.**

### **PROCEDURE**

The amount of hazard insurance (non-flood insurance) required by holders will be limited to the insurable value of the property or the amount of the loan, whichever is less. However, this does not preclude taking out a larger policy if the obligor desires to do so. Insurance tie-in practices are objectionable and should be avoided. Subject to reasonable requirements of mortgagees as to insurance carriers, the borrower is entitled to freedom of selection in placing or renewing insurance coverage.

Title 38 CFR 36.4326 requires flood insurance on properties securing Department of Veterans Affairs (VA) guaranteed loans closed on or after March 2, 1974, if the security is located in an area identified by the Secretary of Housing and Urban Development as having special flood hazards and in which the sale of flood insurance is available under the National Flood Insurance Program. Title 38 CFR 36.4829 states that the Secretary cannot guarantee a loan for the acquisition or construction of property located in an area identified by the Federal Emergency Management Agency as having special flood hazards unless the community in which such area is situated is then participating in the National Flood Insurance Program. Both Title 38 CFR 36.4326 and 38 CFR 36.4829 require the amount of flood insurance to be equal to the outstanding balance of the loan or the maximum limit of coverage available for the particular type of property under the national flood insurance program, whichever is less.

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Failure to comply with either regulation may result in an adjustment in the amount payable under the holder's contract of guaranty or insurance with VA in the event a claim is subsequently filed and there has been a loss, which normally should have been covered by hazard insurance. If the hazard insurance is canceled (other than for nonpayment of premium) or renewal is refused and if coverage cannot then be obtained through a State pool or otherwise, except at prohibitive cost, the holder should promptly notify the VA Regional Loan Center having jurisdiction.

All moneys received under insurance policies covering payment of insured losses must be applied to restoration of the security or to the loan balance. Any other disposition of loss proceeds desired by the parties must be approved in advance by VA. Holders should contact VA in any total or near total loss case before consenting to an insurance settlement if it appears that the settlement proceeds will not be sufficient to pay off the loan balance or to restore the security. Particular care should be taken to contact VA when **defaulted** loans are involved since **claim adjustments** may result if the Secretary's liability has been increased due to an improper release of funds. Upon request, VA will assist holders in obtaining the services of compliance inspectors, at the holder's or borrower's expense, to assure satisfactory restoration of the security if the settlement proceeds are not to be applied to the loan balance.

### **RESCISSION**

RLC Memorandum 07-01 is hereby rescinded.

/s/D. F. MUNRO

D. F. MUNRO

Loan Guaranty Officer