



DEPARTMENT OF VETERANS AFFAIRS
Regional Office
210 Franklin Road S.W.
Roanoke, VA 24011

December 31, 2002

LOAN GUARANTY INFORMATION LETTER #26-02-31

TO: ALL LENDERS

SUBJ: NEW FLOOD INSURANCE REQUIREMENTS

PURPOSE. The purpose of this letter is to announce the New Flood Insurance Requirements.

BACKGROUND. The authority of the National Flood Insurance Program (NFIP) to issue new policies is set to expire December 31, 2002. When Congress reconvenes in January, it is expected that they will reauthorize the NFIP retroactive to January 1, 2003. However, in the interim, there will be some period during which only privately issued flood insurance policies will be available.

WHAT ARE THE NEW REQUIREMENTS?

If a property being purchased by a veteran with a VA loan is located in a Special Flood Hazard Area, VA staff appraisers and Lender Appraisal Processing Program (LAPP) Staff Appraisal Reviewers (SARs) will continue to require flood insurance as a condition of the Notice of Value (NOV). If a loan is closed during the time after January 1, 2003 and prior to the reauthorization of the NFIP, the following instructions must be followed:

1. The premium for flood insurance must be collected at loan closing and submitted with an application for flood insurance to NFIP where it will be held until the issuance of policies is reauthorized by Congress; or private flood insurance must be obtained.
2. The veteran must sign the following statement:

“ I am aware that the property I am purchasing is located in a Special Flood Hazard Area and flood insurance is required. I am also aware that flood insurance that is normally available through the National Flood Insurance Program is temporarily not available, but is expected to be reauthorized retroactive to January 1, 2003. However, I acknowledge that flood insurance could possibly not be reauthorized or not be made retroactive. This means that the property I am purchasing could experience uninsured flood damage. Should this occur, I understand that repair of such damage will be solely my responsibility. I have elected to proceed with the closing of my VA loan in full knowledge that such a possibility exists and with the understanding that my lender may require that I obtain a

privately issued flood insurance policy in the event that the National Flood Insurance Program is not reauthorized. I have been made aware that the cost of such an insurance policy is \$_____ and I am prepared to pay that amount.”

3. The lender must submit the following certification when requesting guaranty:

“This loan, (loan number), is secured by a property located in Special Flood Hazard Area and requires flood insurance to be eligible for guaranty by VA. Funds have been collected and forwarded to the National Flood Insurance Program to pay the premium for a policy expected to be reauthorized retroactive to January 1, 2003. Should that program not be reauthorized or not be made retroactive, any loss prior to the effective date of subsequently purchased flood insurance, either through NFIP or a private policy, would be uninsured. VA would not consider the loan eligible for guaranty if such a loss occurs.”

IF YOU HAVE QUESTIONS

If you have any questions, please contact Mr. James Henderson, Senior Loan Specialist, at (800) 933-5499 at ext: 3164.

Sincerely,

LINDA C. WALKER
Loan Guaranty Officer