



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT  
WASHINGTON, DC 20410-8000

ASSISTANT SECRETARY FOR HOUSING-  
FEDERAL HOUSING COMMISSIONER

**September 20, 2012**

**Mortgage Letter 2012-19**

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**To** **All Approved Mortgagees  
Single Family Servicing Managers**

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**Subject** **Hazard and Flood Insurance Requirement Reminder**

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**Purpose** The purpose of this Mortgage Letter is to remind mortgagees of HUD's existing servicing procedures as they pertain to releasing hazard insurance proceeds for damaged properties securing Federal Housing Administration (FHA) insured mortgage loans. At this time, a reminder of HUD's policy related to hazard insurance proceeds is especially important due to the extent of the devastation caused by Hurricane Isaac in parts of Louisiana and Mississippi.

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**Effective Date** This Mortgage Letter is effective immediately.

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**Affected Policies** The policies set forth in this Mortgage Letter supersede, where in conflict, Mortgage Letter 2005-41.

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**Background** FHA's standard mortgage document requires that the mortgagee be named as a "Loss Payee" on the hazard insurance policy. This requirement helps ensure that hazard insurance proceeds are available to rebuild damaged property. It also protects mortgagees in the event properties cannot be rebuilt and some or all of the insurance proceeds are required to pay off the outstanding loan indebtedness. Therefore, mortgagees are encouraged to contact commercial hazard insurers and remind the insurers of the named mortgagee loss payee on the hazard insurance policy.

Timely receipt of flood and hazard insurance proceeds allows mortgagors to rebuild their homes and provide some stability for their families. Therefore, mortgagees are strongly encouraged to assist mortgagors by: (1) providing copies of hazard insurance policies and information when requested; (2) promptly releasing hazard insurance claim proceeds when a viable repair plan has been approved; and (3) following standard procedures to ensure that hazard insurance claims are filed and settled in an expeditious manner.

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**Processing of  
Hazard  
Insurance  
Policy Proceeds**

In addition to repair coverage for damaged properties, some hazard insurance policies include coverage for replacement of personal property, temporary housing, and other transition expenses. If a mortgagee receives funds from a hazard insurance company for coverage of a mortgagor's personal property, temporary housing, and other transition expenses, then the mortgagee must promptly release such proceeds to the mortgagor. The mortgagee may not withhold disbursement of such proceeds to cover an existing arrearage without the written consent of the mortgagor.

Except for proceeds pertaining to replacement of personal property, temporary housing and other transition expenses, mortgagees are reminded that hazard or flood insurance proceeds are to be distributed in accordance with existing guidance which provides that the repair of a property - pursuant to a certified repair estimate - is the primary purpose for use of such proceeds. Application of excess hazard or flood insurance proceeds after distribution of funds to the mortgagor for replacement of personal property, temporary housing and other transition expenses, shall only be used to cover arrearages and/or pay down principal if such proceeds: (i) exceed the cost to repair the property as provided in the certified repair estimate or (ii) are insufficient to repair the property based upon the certified repair estimate, and the mortgagor is unable to demonstrate that he/she has the funds necessary to cover the additional repair costs.

**Information  
Collection  
Requirements**

The 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 an OMB control number of 2502-0583. 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**

Questions regarding this Mortgagee Letter should be directed to HUD's National Servicing Center at (888) 297-8685.

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**Signature**

Carol J. Galante  
Acting Assistant Secretary for Housing- Federal Housing Commissioner

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