

FDIC Chicago Region Regulatory Teleconference: Flood Insurance - Getting it Right

Wednesday, January 30, 2013

Topics Covered

- Expectations for Flood Insurance compliance
- Biggert-Waters Flood Insurance Reform Act of 2012
- Problematic Areas
- Question and answer

CMS and Flood

- * Board and senior management oversight
- * Procedures
- * Training
- * Monitoring
- * Auditing

CMS and Flood (continued)

Board and Senior Management Oversight

- * Define clearly compliance responsibilities
- * Ensure appropriate structure
- * Maintain effective oversight for proper function

CMS and Flood (continued)

Procedures

- * Specific and detailed guidance for all areas
- * Instructions for unique situations
- * Use of job aids and worksheets

CMS and Flood (continued)

Training

- * Online instruction promotes basic awareness
- * Consider classroom instruction for advanced knowledge
- * Discuss real-life scenarios

CMS and Flood (continued)

Monitoring and Audit

- * Essential to evaluate procedures and training
- * Independence is crucial
- * Consider resources and risk
- * Use audit to complement monitoring
- * Effective monitoring does not have to be formal

Biggert-Waters Reform Act

- * Signed into law on July 6, 2012
- * Extends the NFIP to September 30, 2017
- * Two provisions effective immediately
 - Force placement provisions
 - Civil Money Penalties

Biggert-Waters Reform Act (continued)

Pattern or Practice violations of the following sections of the Flood Regulation are subject to the assessment of mandatory CMPs.

- § 339.3 Requirement to purchase flood insurance where available
- § 339.5 Escrow requirement
- § 339.7 Forced placement of flood insurance
- § 339.9 Notice of special flood hazards and availability of federal disaster relief assistance

Biggert-Waters Reform Act (continued)

Provisions Requiring Regulations or Other Action to Become Effective

- * Flood Insurance Coverage for Certain Multifamily Properties
- * Requires notification under RESPA
- * Escrow of Flood Insurance Payments
- * Private Flood Insurance
- * Notice of Flood Insurance Availability Under RESPA

Problematic Areas

- * Contents coverage for commercial loans
- * Residential condominium loans
- * Force placement of flood insurance
- * Map changes
- * Disputing flood zone determinations
- * Flood zone discrepancies

Problematic Areas

Contents Coverage for Commercial Loans

- * Contents coverage required when:
 1. Security interest in contents and building
 2. Building located in Special Flood Hazard Area
 3. Contents stored in same building
- * Method for securing contents not relevant
- * Reasonable method of valuation

Problematic Areas

Residential Condominium Loans

- * Residential Condominium Building Association Policy
- * Use of Dwelling Form Policy
- * Pages 45-50 of Mandatory Purchase of Flood Insurance Guidelines (available at FEMA website)

<http://www.fema.gov/library/viewRecord.do?id=2954>

Problematic Areas

Force Placement of Flood Insurance

- * Notify borrower of requirement to obtain coverage
- * Force place coverage if borrower does not obtain policy within 45 days of notification
- * Customer service considerations

Problematic Areas

Map Changes

- * Life of loan monitoring
- * Notifying the borrower of map changes
- * Preferred Risk Policies

Problematic Areas

Disputing Flood Zone Determinations

- * Letter of Determination Review
- * Letter of Map Amendment (LOMA)
- * Coverage required in the interim

Problematic Areas

Flood Zone Discrepancies

- * Policy vs. Standard Flood Hazard Determination Form
- * Use of more hazardous flood zone
- * Effect of grandfathering

Reference: Q&A's 71 & 72

Problematic Areas

- * Notice to borrower (Q &A # 79)
- * Proof of coverage
- * Construction loans (Q&A's 21 and 22)
- * Modifications (Q&A # 5)
- * Detached garages

Flood and Civil Money Penalties

- * Mandatory CMPs for pattern or practice
- * Consider CMS strengths and weaknesses
- * Root cause of violations

Reference: Q&A's 81 and 82

Resource Links

- * **FIL 42-2009 – July 21, 2009 Questions and Answers**
<http://www.fdic.gov/news/news/financial/2009/fil09042.html>
- * **FDIC Press Release - October 2011 Q&A's # 9 and # 61**
www.fdic.gov/news/news/press/2011/pr11163.html
- * **Part 339 – Loans in Areas Having Special Flood Hazards (FDIC's implementing regulation)**
<http://www.fdic.gov/regulations/laws/rules/2000-6100.html>
- * **The Biggert-Waters Flood Insurance Reform Act of 2012**
<http://www.gpo.gov/fdsys/pkg/BILLS-112hr4348enr/pdf/BILLS-112hr4348enr.pdf>
- * **Flood Insurance Manual, effective October 2012**
<http://www.fema.gov/library/viewRecord.do?id=6393>

Questions?
Please email them to
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Thank you.