

FDIC New York Region Regulatory Teleconference:

Flood Insurance Compliance from an Examiner's Perspective

Monday, December 3, 2012

Topics Covered

- Flood Insurance Compliance – general expectations of a bank's Compliance Management System
- Common pitfalls and general areas of concern
- Biggert-Waters Flood Insurance Reform Act of 2012
- Question and answer

CMS and Flood

- * Board and senior management oversight
- * Procedures
- * Training
- * Monitoring and audit
- * Each CMS varies based on institution profile

CMS and Flood (continued)

Board and Senior Management Oversight

- * Clearly define compliance responsibilities
- * Oversight structure for each affected department
- * Effective oversight key to proper function of other CMS elements

CMS and Flood (continued)

Procedures

- * Guidance for all areas affected by flood insurance rules
- * Specific and detailed
- * 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
- * Specific to bank procedures

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
- * Each CMS varies based on institution profile

Common Pitfalls

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

Common Pitfalls (continued)

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

Common Pitfalls (continued)

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>

Common Pitfalls (continued)

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

Common Pitfalls (continued)

Map Changes

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

Common Pitfalls (continued)

Disputing Flood Zone Determinations

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

Common Pitfalls (continued)

Flood Zone Discrepancies

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

Reference: Q&A's 71 & 72

Other Issues

- * 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

Biggert-Waters Reform Act

- * Signed into law on July 6, 2012
- * Increased maximum CMP amount
- * A Financial Institution Letter (FIL) covering changes associated with the Act is forthcoming.

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>

- * **Flood Insurance Manual, effective October 2012**

<http://www.fema.gov/library/viewRecord.do?id=6393>

Questions?

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Thank you.