FEDERAL DEPOSIT INSURANCE CORPORATION

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ADVISORY COMMITTEE ON COMMUNITY BANKING

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MEETING

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TUESDAY
NOVEMBER 19, 2013

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The Advisory Committee met in the FDIC 6th Floor Boardroom, 550 17th Street, N.W., Washington, D.C., at 8:45 a.m., Martin J. Gruenberg, Chairman, presiding.

PRESENT

MARTIN J. GRUENBERG, Chairman, FDIC
THOMAS M. HOENIG, Vice Chairman, FDIC
ROBERT F. BARONNER, Jr., President & CEO, Bank of Charles Town
CYNTHIA L. BLANKENSHIP, Vice Chairman & COO, Bank of the West
LEONEL CASTILLO, President & CEO, American Bank of Commerce
CAROLYN "BETSY" FLYNN, President & CEO, Community Financial Services Bank
JANE HASKIN, President & CEO, First Bethany Bancorp. Inc.
MARK HESSER, President, Pinnacle Bank
JAMES LUNDY, CEO, Western Alliance Bank
JOSEPH G. PIERCE, President & CEO, Farmers State Bank
KIM D. SAUNDERS, President, CEO & Director, Mechanics & Farmers Bank
DOROTHY A. SAVARESE, President & CEO, Cape Cod Five Cents Savings Bank
DAVID SELESKI, President, CEO & Director, Stonegate Bank
ALAN THIAN, President & CEO, Royal Business Bank
DEREK WILLIAMS, President and CEO, Columbus Community Bank

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P-R-O-C-E-E-D-I-N-G-S

(8:44 a.m.)

CHAIRMAN GRUENBERG: I guess there is no rule in starting a couple of minutes early.

I would like to welcome everybody to this meeting of our Community Bank Advisory Committee.

It is fair to say our staff, I think, have outdone themselves in terms of today's program. I was a little -- I took a pause when I looked at the agenda because I think we have got seven or eight topics lined up. So, it is a full program but I think a good one and very much responsive to issues that have been raised in previous meetings of the committee.

So, if I may, let me just provide a brief overview and then we can get started.

The first panel is going to be a presentation from our chief economist, Rich Brown and one of our other economists, Smith Williams, on some recent research that our Division of Research has been doing related to community banks.

Rich has been doing some very interesting work both on recent data and trends of community banks and has taken a long-term look at this issue of consolidation within the community banking sector of our financial system and I think has some useful findings to share with you.

Smith Williams has been doing some very interesting research relating to small business lending in community banks and the impact proximity that the community banks has on access to small business lending. I think some interesting findings.

Our next session we will follow up on a discussion we had at our previous meeting concerning technology service providers and vendor management issues. It was clearly an issue on the minds of a lot of you.

And Doreen Eberley from our Division of Risk Management Supervision and Don Saxinger, one of our examiners, will address some of the issues that were raised at the last meeting and provide information on actions we are working on to help banks with vendor management issues.

Following a break, the Division of Risk Management Supervision will brief the Committee on recently Issues Interagency Guidance. First, on interagency guidance on troubled debt restructuring and then on the uniform agreement on classification and appraisal of securities, which also addresses the requirement in the Dodd-Frank legislation on developing alternatives to the use of credit rating agencies.

The next session should be interesting. It presents our so-called Cyber Challenge, which is a community bank cyber security exercise that is designed to facilitate discussion of emerging operational risk issues that may be experienced by community banks. The staff will walk you through how the Cyber Challenge works and provide you with a copy of the exercise to take back to your banks.

At lunch we are fortunate to have as our speaker our Vice-Chairman, Tom Hoenig. When trying to and planning the agenda for this meeting and trying to think who our luncheon speaker should be, we realized we had about as good a person we could find in-house. And so, we asked the Vice-Chairman to.

The first session in the afternoon will include a presentation on our Money Smart for Small Business Curriculum that is a new program under our Money Smart Financial Education Package that we developed jointly with the Small Business Administration. We think it will be useful and relevant, particularly for community banks.

And following the discussion of the Money Smart Program, our Division of Depositor and Consumer Protection in the Legal Division will give you a briefing on the recently proposed interagency guidance on flood insurance, which is always a topic I approach with a certain amount of caution, given its complexity.

[Pages 8-188 have been deleted]

questions? If not, thanks, Elizabeth and Tom.

MS. ORTIZ: Thank you.

MS. RYAN: That was really a great conversation. And thanks to everybody for your questions.

So we are now going to turn to flood insurance. And as you likely know, the agency has recently issued a joint proposed rule that would implement certain provisions of the Biggert-Waters Flood Insurance Reform Act of 2012.

So Luke Brown, sitting now to my right, is going to lead a discussion on the proposed rule, as well as some of the other broader issues that are raised under Biggert-Waters.

And Luke is joined by John Jackwood, also sitting directly to my right, from our Division of Depositor and Consumer Protection.

And from our legal division, Michael Briggs and Navid Choudhury.

So with that, I will turn the mike over to Luke.

MR. BROWN: Hello, everybody. It is good to see you again. Good afternoon.

So, there have been a number of changes with respect to flood insurance the last couple of years. You might have heard from your compliance officer or some of your customers about some of these changes to the National Flood Insurance Program. And these issues also have received significant media attention recently. So, you might have heard about it from that respect as well.

My portion of today's presentation will focus on the flood insurance reforms that you have been hearing about. These changes were passed by Congress through the enactment of the Biggert-Waters Floor Insurance Act of 2012.

Now, I will ask my colleague, John Jackwood, to briefly discuss the Joint Notice of Proposed Rulemaking recently issued by the FDIC, the OCC, the Federal Reserve Board, the NCUA, and the Farm Credit Administration, a long list of agencies there.

The Joint Proposal would implement specific provisions of the Biggert-Waters Act dealing with financial institutions' compliance obligations relating to the mandatory flood insurance purchase requirement. The proposal is unrelated to the broader reform provisions of the law that I had mentioned a moment ago and that I will be discussing today.

It is open for public comment until December 10th of this year and we invite interested parties to submit comments to the proposal.

I should also note that any comments made during this meeting with respect to the Joint Proposal will be made part of the public record of comments going forward as part of our rulemaking process.

Once John and I conclude our remarks, we would love to hear from the committee about your thoughts with respect to what you are hearing and any issues related to the issues that we are going to address.

So with that, let me start with a little bit of background. The Biggert-Waters Act includes provisions reforming the National Flood Insurance Program that are not under the jurisdiction of the FDIC or the other federal banking regulatory agencies. These provisions, which I will briefly discuss, are primarily under the authority of the Federal Emergency Management Agency, of course also known as FEMA.

Biggert-Waters was passed after Hurricanes Katrina and Rita had taken place. So, as you can imagine, paying for the damage caused by Katrina and Rita had a major impact on the Federal Flood Insurance Fund. And in fact, paying claims from the 2005 hurricane season put the flood insurance program tens of billions of dollars in debt, which was a concern of Congress as the legislation was being considered on the Hill. These disasters highlighted financial challenges facing the flood insurance program, while Congress and FEMA intended for the flood insurance program to be funded with premiums collected from policyholders, the premiums paid by policyholders in fact have not been sufficient to meet the cost of the program.

For example, many property owners

with national flood insurance program policies paid low, subsidized rates over a long period of time that did not reasonably reflect the risks of potential flood damage.

Also, some property owners were allowed to pay grandfathered rates, instead of the full actuarial rate that reflects the current risk of flood. In addition to changes related to grandfathered rates, Congress wanted to address situations where consumers homes are damaged in high-risk flood areas and, despite the risks, these consumers decide to rebuild in that same risky flood area.

To address these policy concerns, Congress included provisions in the Biggert-Waters Act that mandate significant changes to National Flood Insurance Program premiums, subsidies, as well as mapping.

First, regarding subsidized premiums, the Biggert-Waters Act eliminates subsidized premium rates for new flood insurance policies. It also phases them out for other properties. Depending on where a property is located, where a home was built, when the insurance policy was written or renewed, policyholders may see an immediate or an incremental increase in their rates over time, depending on their situation.

The Biggert-Waters Act also requires FEMA to establish a reserve fund for meeting expected future obligations. And the purpose of the fund essentially is if they have financial challenges, they don't want the flood insurance representatives to come back for additional funds for Congress. And in this case, in terms of the reserve fund, most policy holders will see a new charge in their premiums to cover the fund assessment.

Finally, the Biggert-Waters Act requires FEMA to update outdated flood maps across the country to accurately reflect the current risks to properties. And of course updating flood insurance rate maps will result in some increased rates, as well as additional homes being designated as being located in flood zones.

So in sum, the combined impact of the elimination of the subsidies, increased premiums, and the establishment of reserve fund, along with the updated maps, will ultimately result in more expense to flood insurance for some, and also more consumers being required to get flood insurance than they have in the past. And in some cases, these premium increases will have a significant financial impact on consumers.

Because of the public concerns raised about the potential impact of Biggert-Waters on consumers and lenders and others, some members of Congress want to make changes to the law. So you might have heard last month legislation was recently introduced to delay the flood insurance program for up to four years and to require FEMA to do an analysis for affordability purposes and develop new rules to address some of the affordable issues that might be identified through that study.

So, while the provisions are aimed at making the fund more financially stable, and to more accurately reflect the risks on the ground, there are a number of consequences of the statute. And it will be interesting to see what happens going forward as Congress opines on these issues. So, we will all have to see what happens.

So that is the conclusion of my presentation on the broader reforms that, again, I just want to reemphasize those reforms are outside of the jurisdiction of the FDIC but they are being talked about, you might be hearing about them. So, we wanted to raise them here as part of our discussion.

John Jackwood, on the other hand, is about to walk you through our joint notice that we issued with the other regulators which is related to our authority under the law.

So with that, I will pass the baton off to John Jackwood. John?

MR. JACKWOOD: Thank you, Luke. Good afternoon.

The Biggert-Waters Flood Insurance Reform Act of 2012 amends the Flood Disaster

Protection Act of 1973, which grants the FDIC the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the National Credit Union Administration, and the Farm Credit Administration general rulemaking authority over the mandatory flood insurance purchase requirements as it pertains to regulated lending institutions.

On October 11th, the agencies jointly issued a proposed rule that would implement the provisions of the Biggert-Waters Act pertaining to the mandatory purchase of flood insurance, over which the agencies have jurisdiction, as Luke just mentioned.

The three key provisions in the Biggert-Waters Act pertaining to the mandatory purchase of flood insurance are first, the acceptance of private flood insurance; second, the escrowing of insurance premiums and fees; and third, the forced placement of flood insurance. Each of these three key components addressed in the proposed rule are drafted to adhere closely to the statutory language.

First, Congress wanted to stimulate the private flood insurance industry. So, Biggert-Waters included a provision focused on this issue. The proposed rule would implement this change. It would require that regulated lending institutions accept private flood insurance to satisfy the mandatory purchase of flood insurance if certain conditions are met. These include, first, that the private flood insurance meets the criteria set forth in the statutory definition of private flood insurance. And second, the insurance term and coverage amounts satisfies the requirements of the Flood Disaster Protection Act. The proposed rule would also require regulated lending institutions to disclose the availability of flood insurance from private flood insurance companies and encourage borrowers to compare private flood insurance policies offered under the National Flood Insurance Program with the policies offered by private insurance companies.

Second, the proposed rule would require regulated lending institutions to escrow premiums and fees for flood insurance for any residential loan secured by residential improved real estate or a mobile home with the same frequency as regular payments that are made on the loan. This provision would apply to those loans that are outstanding on or originated after July 6th of 2014. However, the proposal includes several exemptions to the escrow requirement, including an exemption for certain smaller financial institutions.

As required by the statute, an institution qualifies for the exemption if it has total assets of less than $1 billion and, as of the enactment of the Biggert-Waters Act, which was July 6, 2012, the institution was not required by law to escrow for insurance and taxes or any other charges. And the institution did not have a policy requiring escrowing of such charges and fees for loans secured by residential improved real estate.

The proposed rule would also exclude

from the escrow requirements business, commercial, and agricultural loans, as well as second lien loans and residential condominium association policies. The proposed rule also includes provisions regarding the timing for when the lenders must begin escrowing and requires lending institutions to provide a 90-day written notice to borrowers in advance of escrowing for outstanding loans.

Third, for a number of years, there has been some confusion in the industry about how forced-placed insurance requirements should be implemented. The proposed rule would clarify existing regulatory provisions with regard to a regulated lending institution's ability to charge a borrower for the cost of forced-placed flood insurance coverage. As required by the statute, the proposed rule expressly provides that a lending institution may charge a borrower for forced-placed insurance commencing on the date of the lapse of a borrower's flood insurance policy or the date a borrower's policy does not provide a sufficient coverage amount.

In addition, the proposed rule requires a lending institution to notify the insurer to terminate a forced-placed insurance policy when the borrower presents evidence of flood insurance coverage and the lending institution must refund the borrower for any periods of overlapping coverage within 30 days.

The joint proposal would amend the Agency's rules pertaining to loans in areas having special flood hazard areas, which were last revised in 1996. Public comments on all aspects of the proposed rule will be accepted by the agencies until December 10th, as Luke referred to. And the Notice of Proposed Rulemaking provides the details on how to submit those comments to the agencies.

And that concludes my remarks on that.

MR. BROWN: Thanks, John. Before we open things up for a conversation, I would like to sort of given an advertisement. As part of the Chairman's Community Banking Initiative, we have developed a series of videos on a number of issues, on the compliance side, as well as safety and soundness. You might be aware of that.

Among the videos that we have been developing is one on flood insurance, which should be released soon, certainly before the end of the year. So, I just wanted to note that. And those videos are for bank directors and officers and others to have access to information on compliance issues.

So with that, we are ready for any questions you might have.

MEMBER HESSER: John, would you clarify on that reimbursement to the consumer in the event of overlap coverage on forced-placed insurance? Is that only from the time forward when they provide you notice?

So the policy terminates. The bank buys a policy, communicates to the customer. Of course, the customer doesn't communicate back. Don't say anything. Four months down the road, they come walking in, oh, I bought a policy four months ago. Do we have to reimburse that four months or just --

MR. JACKWOOD: It is reimbursement for any double coverage. So, if the borrower -- I know the statute does not specify the period of time in which you have to reimburse, other than to say you have to reimburse from any period of time where your policy covered the same period of time as their policy.

MEMBER HESSER: I don't know if you can change that as part of this rule process but it would seem like until the institution has been put on notice that they bought this policy -- because what typically happens is that customer never communicates with the institution. And how do we know that they have purchased flood insurance?

MR. JACKWOOD: Right. The statute doesn't get that specific. It just says a period of time when your coverage is in place and their coverage is in place, that is what needs to be reimbursed within that 30-day time period.

MEMBER LUNDY: So, is the comment very open for just how the rules are going to be implemented or the comment -- that was a good comment. What I think that I heard was that that really is not -- there is no way anybody can do anything about that.

MR. JACKWOOD: Well the proposed -- yes, the statute is pretty clear and the proposed rule adheres closely to the statute in this particular area. But certainly, we welcome any and all comments and we will certainly take those into consideration when we write the final rule.

I mean to the extent that there is anything we can do to address any issues that are raised by the industry or consumers, we would try to take those into account as best we can, within the four squares of the law.

MEMBER HASKIN: Can you tell me what -- excuse me. Go ahead.

MEMBER FLYNN: The way I read this, it says within 30 days of the borrower presenting evidence of flood insurance coverage.

MR. JACKWOOD: Right. That is when the institution has to reimburse the customer.

But they reimburse them for any overlapping period of coverage.

MEMBER BARONNER: Are there any -- maybe you don't have anything to do with this. Are there any limitations on how much to, as you transition from public to private insurance, how much they increase every year, the premiums?

MR. JACKWOOD: No. There is nothing like that in there.

MEMBER BARONNER: Because this is an issue that actually came up in my Board meeting this week. It is on like in North Carolina, their premiums are going to go way up really quickly and it is probably going to affect remarketability of those houses.

My understanding is that if you sell a house, it automatically goes to the private rate right away.

MR. JACKWOOD: That's correct.

MEMBER BARONNER: And so the concern was that is going to be detrimental to real estate values, especially on the Outer Banks, that type of thing.

I think one was a million dollar house and it was going to go up to $30,000 a year or something like that.

MEMBER WILLIAMS: We have heard numbers close to that for much smaller properties. And I serve on a committee with ICBA. One of our members is in Homer, Louisiana and is thinking this -- has done a lot of work in this area. And these are properties that are $150,000 properties that through everything they have been through have not flooded. And premiums going from less than a thousand dollars into the twenties of thousands of dollars. I mean literally pay for the house in seven years premiums. And that is just not going to work.

MR. BROWN: Right. That is an example of the things that we have been hearing that are talked about in the media. For a second home, the prices go up 25 percent until it reaches a risk rate. And so that is one of the reasons why Congress, I imagine, is taking a look at this issue.

MEMBER WILLIAMS: But it is scary.

The numbers are almost unbelievable on some of those.

MR. CHOUDHURY: FEMA is also tasked with an affordability study within two years. That is part of the legislation that has been out there. So once they complete that affordability study, they will have a better idea. And then they are going to have the two years after that for them to implement the premium increases. So, hopefully, we will get some more guidance in the future.

MEMBER PIERCE: In our shop, we are looking at anywhere from 300 to 500 percent increase in premiums.

MEMBER SAVARESE: Not to pile on, but of course in coastal Massachusetts, we are looking at just as significant increases as well.

I have one -- and Jane, were you going to say something? Because I just have a technical question. You go right ahead.

MEMBER HASKIN: I had a question about the statutory definition of the private flood insurance, the evaluation of that.

As a banker, I'm not sure I am qualified to know if those private insurance policies meet the statutory requirements of a flood insurance policy. So, is there -- can you give me some information on that? Are there going to be definitions?

I mean I just don't feel qualified to do that. And so my concern is that we get a policy that we think we are covered, the property is covered but it doesn't meet the definition.

MR. JACKWOOD: That is a very good question. I am glad you raised that because that lets us make this point. In the rule, -- because we have head that from a number of people. In the rule, it provides for a safe harbor with respect to whether the private policy will be considered compliant with the statutory definition if a state regulator determines that that policy meets the definition, statutory definition of private flood insurance. And in the definition, there are specific criteria that if you are familiar with the former FEMA flood insurance guidelines, there were six criteria in those guidelines that Congress basically took and put into the statute for the definition of private flood insurance.

So we put into the rule this safe harbor and we have asked for comment on whether this safe harbor would work because if a state regulator certifies in writing that it meets the definition of private flood insurance, then banks could rely on that and so could examiners to say okay, at least it meets the definition. Now, we just look for the amount of the insurance and the term and whether that meets the Flood Disaster Protection Act requirements.

MEMBER HASKIN: It would seem to me that it would make more sense to put that burden on the insurance industry to only provide the policies that meet the guidelines, rather than having bankers who don't have that expertise be the judge of that.

So, that is my comment.

MR. BROWN: And that is a good comment. This is a good example of the type of issue that we need comment on. Because we were trying to think of the best practical way to meet the requirement so you have safe harbor. And then of course, insurance is primarily regulated at the state level. So bring in a state regulator who could opine on the compliance.

So, that is another thought in terms of the insurance company ensuring that it is in compliance but that is a good comment. Thank you.

MR. BRIGGS: Just to underscore Luke's point, the use of the state regulator authorization safe harbor was intended as an attempt to provide some clarity in this area. That is how people understand insurance regulation to operate. It is a state-regulated business. You submit policies. You get approval to be able to write that particular policy in that state. So this was just a way to attach that well-known process for this particular type of insurance that is new.

So what you would do as a lender, you would ask to see some documentation. And it is a burden on you as opposed to on the insurance company that is writing the policy. That is a useful point. But you could then rely on the state of Oklahoma having said that this policy meets the definition of private flood insurance in Oklahoma.

MEMBER SAVARESE: So again, not to pile on this but one of the things that I think from a bank regulator perspective that I think you may understand and Navid talked about the FEMA's analysis of affordability is that the economic dislocation caused by this actually may cause safety and soundness issues for community banks in coastal communities.

One of the issues, too, is that the flood maps themselves are subject to revision and comment all the way up to June 2014. We are being asked to escrow as of July 2014. If we don't know the value and we don't the final flood maps, how are we supposed to reconcile that?

MR. BROWN: That's a good point.

MR. CHOUDHURY: That will be based on the current flood policy premium. And so you escrow as of the date of the policy. And if the flood maps change in the future, then you could update upon the next renewal you would change the escrow amount to cover the following year's payment.

MEMBER SAVARESE: But the issue is if it changes in June, I don't have enough time to change that escrow. You know what I mean? Because of all the timing with a loan closing, if it shifts in June, I am behind the eight-ball on that. I don't have time to change that.

MR. BRIGGS: I will just say that that is something -- those are helpful comments that we will need to pass along to FEMA, the agency that is primarily charged with updating those flood insurance maps and when they are available and when people should begin relying upon those updated map data.

MEMBER BARONNER: I happened to look this week at the department, this question came up with their portfolio, loans that we have flood insurance on. And about half of them when the loans were made, the people voluntarily got the flood insurance. And then the FEMA flood maps were changed and we were notified of it. And when that happens and you might have a property and it may be sitting 20 feet -- well anywhere that has ever been flooded, then they may be required to have flood insurance. You call them up. You send the standard three letters, you need coverage. And they say well, I am not getting it. So, you force place it.

So all of a sudden so we start taking it out of our pocket and adding it to the loan, all of a sudden with these high premiums, you have got a loan that is in the negative amortization in the principal balance because you are adding the flood coverage to it, it is going up faster than it is paying down. And again, I only have like a million and a half. I was glad we didn't make a lot of loans down on the Outer Banks.

You know there are safety and soundness issues with that, I think, for probably a lot of banks on the coast. A lot of times when the flood maps change, people, you can send them the three letters. And I guess you can foreclose on them or whatever if they don't do it but this time you have to force place it and with these premiums going up, that is going to be a big problem.

MEMBER SAVARESE: A third of the homes on Cape Cod are seasonal in nature.

MR. BROWN: Yes, big policies issues for Congress.

MEMBER SAVARESE: And I know you can't do anything about that. And you are right to be passing it along there but again, the ramifications for financial institutions, I would imagine, are --

MR. BROWN: And obviously, the FDIC and other regulators are focused and listening. And that is partly, I think, why we are having this conversation today is to hear what you are hearing. We hear it obviously from our examiners but it is also good to hear directly from you as an advisory committee.

MEMBER WILLIAMS: Well that is like some of the other issues that we have dealt with today the allowance for loan lease loss and some of the capital issues and everything else. You can't make up this kind of hole overnight. And that is what they are trying to do, I'm afraid here. And I just don't think that is realistic.

MEMBER FLYNN: The other thing that has happened with our borrowers where the flood maps have changed very abruptly and they have their land surveyed and they can prove that the area that is designated a flood zone is not, that is at the expense of the property owner. They have to get the surveyor and prove to FEMA that it is not in a flood zone. And they are not happy about that either.

MEMBER SAVARESE: Well and mechanically right now, our engineers that are doing that work are so backed up that most people can't get the work done in time to challenge the flood map.

MEMBER FLYNN: Right.

MEMBER SAVARESE: So, they don't actually have that as an option because there aren't enough professionals to get it done.

MEMBER FLYNN: We actually had a 100-year flood in 2012. And in areas that did not flood with the 100-year flood, FEMA came in and changed the map anyway and have a lot of areas in the flood zone that were not before.

MEMBER LUNDY: The new rules, for sure, don't include commercial properties or commercial loans?

MEMBER SAVARESE: It's just the escrow.

MEMBER LUNDY: Or just the under -- what are the old rules where they still apply?

MR. JACKWOOD: Correct.

MEMBER LUNDY: These only apply to residential?

MR. JACKWOOD: The escrow rules?

MEMBER LUNDY: Yes, the escrow rules.

MR. JACKWOOD: The escrow rules do not. That is right.

MEMBER LUNDY: I mean the new flood zone rules, they will continue to apply.

MR. JACKWOOD: Right.

MEMBER LUNDY: And the new flood policies, that will apply.

MR. JACKWOOD: Yes.

MEMBER LUNDY: But the escrow rules don't apply.

MR. JACKWOOD: The escrow rules do not apply to business loans, commercial loans, ag loans, no.

MEMBER LUNDY: That's good.

Another question I had just in terms of engagement of other industries in this, to what extent has -- we talked about a little bit the insurance industry -- the title insurance industry, the home-building industry and the residential real estate sales industry, to what extent have they been engaged by anybody to participate in the information dissemination and education and just be a part of the process?

I mean a title insurance company, for example, and I know it may be different in the east than in the west but in the west, all properties, commercial or residential go through a title insurance agency, rather than a lawyer's escrow office, for example. And they are intimately involved in all of the stuff related to closing and providing clear title.

I mean it seems to me that that might be an industry that needs to be engaged and have some notification of responsibility. But I don't know.

MR. BROWN: Are you addressing the joint proposal, those issues or are you talking about the broader reform issues in terms of the title?

MEMBER LUNDY: Both.

MR. BROWN: Right. Well, I know from a policy perspective that folks on the Hill are listening to a wide range of stakeholders.

In terms of our process, we had a series of meetings with large lenders, small lenders, small insurers, large insurers, and now we have put the proposal out for broader public comment and we expect a number of comments from various stakeholders and we will seriously look at those comments and consider them and make adjustments. Some of the comments we have heard today are helpful already. And I am sure others will have thoughts that will help us improve our proposal.

MEMBER HASKIN: Many times, we are the informants on whether a property is in a flood plain or not. The people don't know it until they come to get the loan and we begin doing the documentation. That is many times the first inkling of a clue that people have that the property that they are looking at is in a flood plain, unless it is obviously coastal waters or something like that. But many of the properties in Oklahoma, they don't know that until we tell them.

MEMBER PIERCE: You have to defend it.

MEMBER HASKIN: Yes. Yes, and it is not popular news.

MEMBER PIERCE: Oh, it has never flooded. It never will flood. You don't know what you are talking about.

MEMBER HASKIN: That's right.

That's right.

MEMBER LUNDY: That's why other stakeholders in the property transaction business, other than lenders, it would be interesting to see to what extent they can be incorporated into this more rigorous process going forward.

MR. BRIGGS: Just by way of information distribution, all of the agencies issued this Notice of Proposed Rulemaking via press release. So, the comment period the way it typically works in rulemaking is you don't get any comments until the last day and then you get very voluminous detailed comments.

(Laughter.)

MR. BRIGGS: So, we expect that we will be doing a lot of reading in December but that is -- but we are -- I think it seems likely we will get some comment letters from the various constituencies that you just mentioned. And I think they will probably, as they typically do, take the comment period to develop their very detailed comments and then they submit them.

And that is what the agencies will be reviewing.

But certainly it is out there and on each of our agency websites, the proposal. So to the extent that we could publicize it as widely as possible, we follow our normal process to make sure that everybody in the public forum has an opportunity to comment on this, on any rulemaking.

MEMBER LUNDY: How about state insurance regulators? Are you seeing any comments from them yet or are they also waiting until the last day?

MR. BRIGGS: Well we are not necessarily seeking -- I mean we have issued it and we are inviting comment. I don't know that we have had any conversations.

MR. CHOUDHURY: We haven't seen any comments yet. So we still mean by the end of the period, that we should see a flood of comments coming in. No pun intended.

(Laughter.)

MEMBER FLYNN: I loved the statement by Ms. Waters that she just did not understand all the consequences that this bill is having, like her name wasn't on it. No pun intended there, either.

(Laughter.)

MEMBER FLYNN: It was like, lady, it is your bill.

MS. RYAN: Okay, well anything else?

MEMBER LUNDY: One last thing. Maybe you can get the state banking regulators to assist them in talking to their colleagues down the hall at their various state capitals to ask their insurance regulator colleagues to weigh in on this.

MR. BROWN: That would be helpful. I would say since we do have the safe harbor focus on the escrow piece, I just can't imagine that state insurance regulators won't comment. Because we have kind of pulled them into the discussion but certainly --

MR. BRIGGS: They have been given a new job or a new policy to approve. So we would imagine that they are very focused on what that means for their role.

MEMBER WILLIAMS: I think we, as bankers, Mark I will be honest with you, as we were reading through this, I had the same question you offered. And I made the mistake of saying, it couldn't be. But unfortunately, that is what it looks like.

And quite honestly, if these premiums at the levels they are at, if someone walks in and says hey, I got that policy six months ago and we have to reimburse six months of premium every time that happens, that is going to be an issue.

And I hope we, as bankers, and the trade associations will take note of that and jump on that quick because that is huge.

MEMBER HESSER: Does that apply to commercial as well, that particular paragraph?

MR. JACKWOOD: Escrow commercial?

MEMBER HESSER: Reimbursement.

MR. JACKWOOD: Oh, the forced placed? Yes, that applies.

MEMBER HESSER: Oh, that is huge.

Big dollars on commercial.

MEMBER LUNDY: And your compliance folks should know when that happens and they come in, don't beat us to death. You know, all of the factual patterns that they just described will occur and we will force place and then it will be -- it is bad enough to have to reimburse it. It is enough to say and your compliance wasn't really good enough. You should have been on that. I mean this is going to be a disaster.

MR. BROWN: Helpful comments.

MEMBER FLYNN: You can no longer depend on the insurance companies just because you are a lien holder. You cannot depend on any notification from them. They don't even notify us when a policy lapses now.

MEMBER BARONNER: I have been called by somebody for a mortgage. You know 29 percent VIPI and now you have got flood insurance that is going to inflate greatly, how do you anticipate what the flood coverage is gin to inflate to and it throws them out of a QM mortgage?

MEMBER BLANKENSHIP: Well, it is going to affect the market. So then you are going to start denying credit accessibility. These people aren't going to be able to buy homes because their insurance is unaffordable.

MEMBER BARONNER: This is really an example of unintended consequences, the idea that the government should subsidize million dollar houses on the beach. I agree with it but wait, you whip something into place like that and there is just all sorts of ramifications that we have learned about right here.

MEMBER FLYNN: Send Ms. Waters a letter.

MS. RYAN: Okay, well thank you. Thanks to Luke and John, Michael and Navid.

So, we are going to get started on our last topic of the day, which is social media, another emerging topic, and in particular, some interagency guidance that is currently being developed under the FFIEC on social media.

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