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To: Comments
Subject: Agency Information Collection - 3064-ZA00

To Whom It May Concern:

I am glad that we get the opportunity to comment on the proposed new questions and answers, in particular, what constitutes insurable value. Reading the Federal Register itself, I see cause for confusion. One section says that "FEMA guidelines state that the insurable value of a building is the same as 100% replacement cost." Another section says that the Regulation provides that "flood insurance under the Act is limited to the overall value of the property securing the designated loan minus the value of the land on which the property is located....which is commonly referred to as the insurable value of the structure." We need to be following the Reg. We need to be following the law. The Reg is straightforward in its definition of insurable value and is simple in its calculation without any inconsistency. Using replacement value as insurable value would lead to confusion and inconsistency. For starters, where would a lender obtain replacement value...an appraisal, the insurance agent? I see appraisals and insurance policies with loans and I assure you that the calculations for replacement cost by the appraiser and the agent typically are not the same. Whose would we choose? What if we do an in house appraisal? Is the loan officer responsible for a "guess-timate" of replacement cost? Out of curiosity, I called several agents in our county and surrounding counties to see how they arrive at replacement cost. I received a multitude of answers. Some used total appraised value.....which includes land and that in itself is wrong. Some have a program that does cost estimates. Some use purchase price of the property. Some use 80% of the building value. Some use the same amount that the customer has in fire coverage. This isn't reliable because not all people want insured for replacement cost. The most telling of answers that I received was "we get it from the customer." How can we rely on this? Inconsistency leads to doubt so how can we be sure that the replacement value given to us by the agent is correct?

If we did have to start using replacement value instead of appraisal minus land as a determining factor in calculating amount of flood coverage, how will this affect our existing portfolio? Would we be required to review our portfolio and re-calculate coverage? Would we wait until a policy renews to re-calculate coverage (i.e. we get a renewed policy and re-calculate coverage and see that it is deficient....then notify the customer that they are underinsured.)? What about appreciation for a structure? Would we be required to determine RCV every year at policy renewal? If it goes up, the customer could be required to increase their flood insurance every so often at renewal. What about mobile homes? Replacement cost generally would be more than the book value. This is a problem because most insurance companies will only insure for the book value. What if a customer has fire at one insurance agency who lists replacement cost as one amount and flood coverage with a different agency that lists replacement cost as something different? How are we to reconcile the differences and make an explanation to our auditors? What would be the best way to document how we would arrive at a replacement cost value?

Changing the definition of insurable value will do nothing but cause confusion. Given the differences among replacement cost between appraisers and insurance agents, it would appear that replacement cost is open to interpretation based upon who makes the determination and what factors, if any, they look at. How are we to determine who is right? There are too many variables to consider. As I stated earlier, the Reg is straightforward in its definition of insurable value and is simple in its calculation of total appraisal minus land. This should not change. FEMA'S definition is changing the law's definition and that is not right. In all technicalities and

reasonableness, it seems that a bank will be in compliance by abiding by the law's definition. Until the the Act itself defines insurable value as 100% replacement cost value, how can we not be in compliance?

Sincerely,
FIRST COMMONWEALTH BANK
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