NATIONAL FLOOD INSURANCE PROGRAM

Regulatory Considerations

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THE NATIONAL FLOOD INSURANCE PROGRAM

A voluntary program based on a mutual agreement between the Federal government and the local community:

In exchange for **adopting** and **enforcing** a floodplain management ordinance, Federally-backed flood insurance is made available to property owners throughout the community.

Why is it Important:

 Bank Regulators focusing on Flood Insurance requirements during compliance and/or safety and soundness examinations;

 Requirement to Purchase Flood Insurance was Federal Reserve, OTS, and OCC's top regulatory compliance violation for 2005;

 Institutions are subject to mandatory Civil Money Penalties which are formal public actions for pattern or practice of Flood violations;

Why is it Important: (cont.)

 Since 2005, Federal Bank Regulatory Agencies have taken over 60 public enforcement actions in which CMPs have been assessed for flood insurance violations;

 Failure to adhere with Flood Insurance requirements could result in other bank regulatory administrative actions.

Why is it Important: (cont.)

It is a real business risk on many levels for all of these reasons!

Flood Risk Probabilities

 For a house located within the Special Flood Hazard Area, there is a 26% chance that it will be inundated by a 100-year flood during the life of a 30-year mortgage...

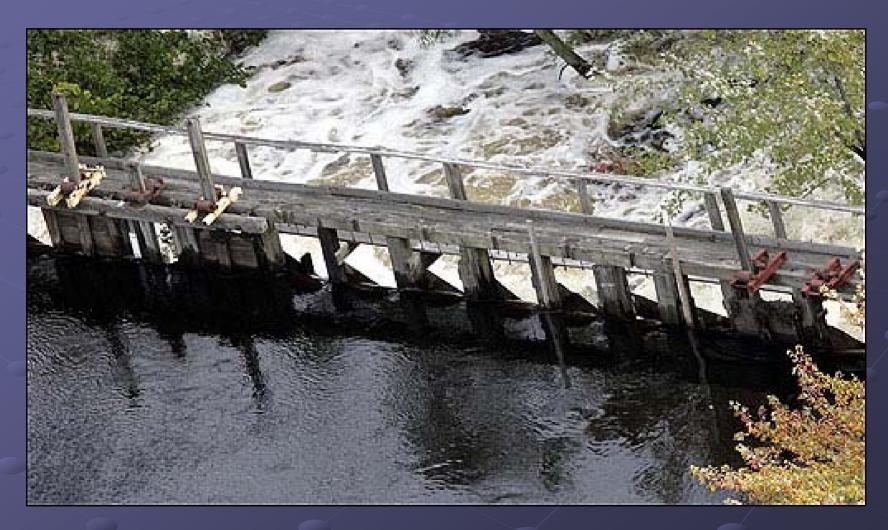
- There is a 1-2% chance that a house will catch fire during the life of a 30-year mortgage.
- Over a 50 year period, the probability increases to 39%.

It won't flood here! Southern New Hampshire - October 2005



It won't flood here! Southern New Hampshire - October 2005

It won't flood here! Whittenton Mills Dam, Taunton- October 2005



It won't flood here! Merrimack Valley - May 2006



It won't flood here! Merrimack Valley - May 2006



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Enough Coverage? New England has fairly low participation in the flood insurance program* Massachusetts - 6.4 million people 44,731 policies (as of Feb 2006) New Hampshire - 6,692 policies Maine - 7,396 policies

* May 2006 Insurance Journal

Key Controls

- Bank/Corporate-wide Flood Insurance policies, procedures and other controls including controls relating to condos, commercial loans, construction loans, second mortgages and cross collateralized properties;
- Automated flood determination and loan conditioning requirements;
- Consistent standards and tools for determining required Flood Insurance amounts;

Key Controls (cont.)

 Controls to ensure appropriate escrowing of flood insurance;

- Pre-closing review of proof of sufficiency of flood insurance amount;
- Regular flood insurance compliance monitoring and testing activities;
- Life of loan review and loan servicing flood insurance controls including processes for force placement.

Trouble Spots

Life of Loan Monitoring

 Borrower reduces coverage amount
 Policy is checked for existence, not for accuracy loan is insufficiently insured

Insurance agent changes zone coverage
 Tries to "save" the customer money - borrower purchases coverage outside of a flood zone

Trouble Spots

Commercial Lending

 Ensure consistent coverage/monitoring policies exist throughout all business lines

Watch out for "contents" coverage

 Typically found in commercial lending - take inventory as security

On the Horizon...

H.R. 4973 "Flood Insurance Reform and Modernization Act" (FIRM)

- Increase max coverage from \$250K to \$335K residential, \$500K to \$670K - commercial
- Increases max CMPs from \$350 each violation to \$2000
- Notification that flood insurance available to ALL RE borrowers
- Improve flood map system
- Change force place wait period from 45 to 30 days





FOR MORE INFORMATION

www.fema.gov
www.floodsmart.gov
www.federalreserve.gov
www.bankersonline.com