

A faded background image showing several people in a meeting or conference room, looking at documents and talking.

Interagency Rules: Mandatory Acceptance of Private Flood Insurance

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Flood Insurance Compliance Basics

Trigger

- Make
- Increase
- Renew
- Extend
- **“MIRE”**
- Any loan secured by improved real estate; not only residential

Determine

- SFHA
 - Special
 - Flood
 - Hazard
 - Area
- In a participating community

Calculate

- Required amount of insurance
- Coverage Limits

Flood Insurance Compliance Basics

Coverage Limits

The Lesser of:

Outstanding
Principal Balance

\$250,000: 1-4

\$500,000: 5+ or
non-residential
commercial

Private Flood Insurance

Mandatory
Acceptance

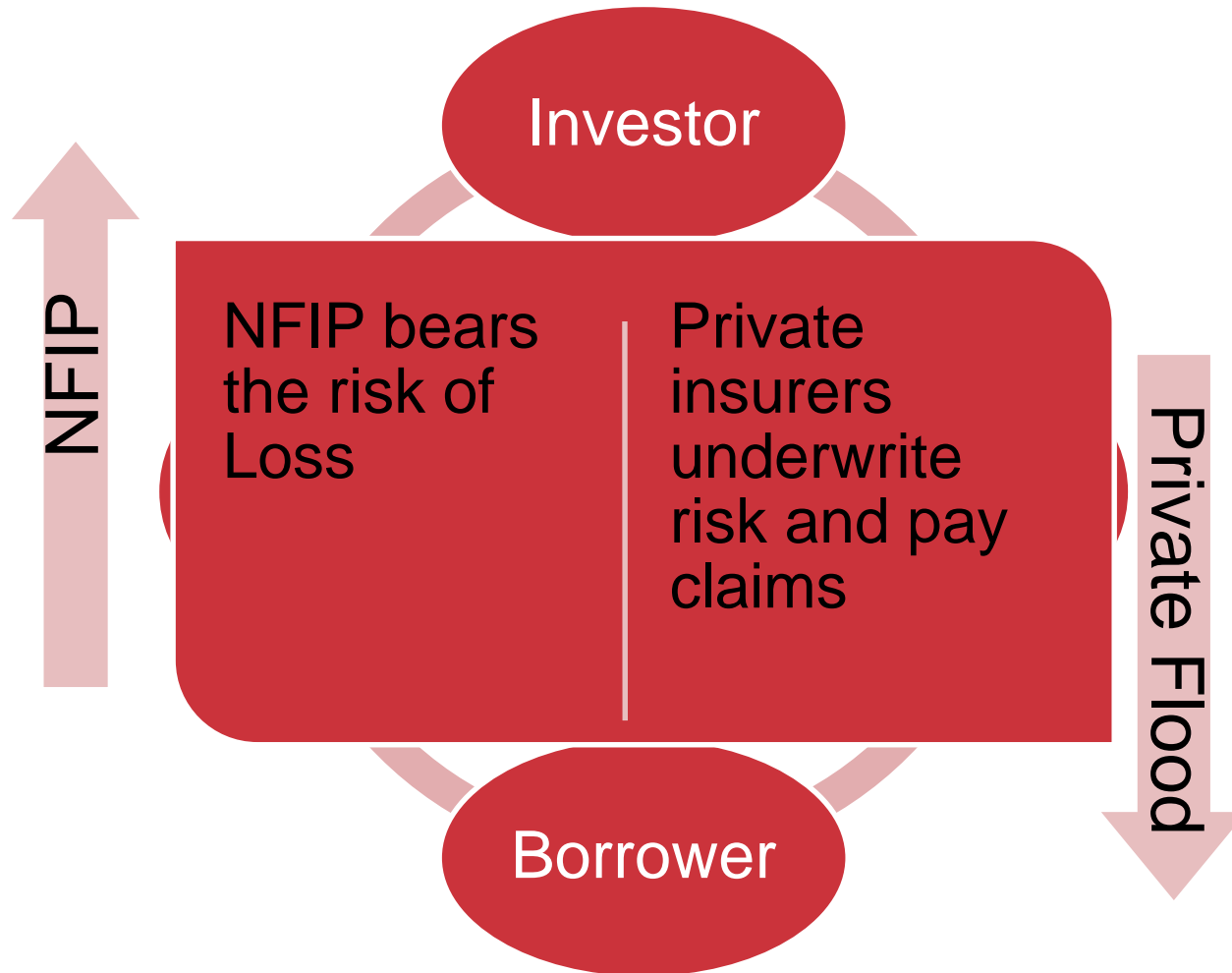
Compliance Aid

Biggert-Waters
Flood Insurance
Reform Act

Discretionary
Acceptance

Enforcement

NFIP v. Private Flood



Mandatory Acceptance

Biggert- Waters Flood Insurance Reform Act

Allows private flood insurance to satisfy the mandatory purchase requirement

Issued by an insurance company that is licensed, admitted, approved, or recognized in the jurisdiction where property is located

Provides flood coverage that is “at least as broad as” the NFIP coverage

Mandatory Acceptance

Maximum Limits of Coverage

- \$250,000: 1-4
- \$500,000: 5+ or commercial

Issued by Private Insurer

- Licensed or admitted insurer in jurisdiction OR
- Recognized surplus line insurer in jurisdiction

At Least As Broad As NFIP

- Six factors (or 9 elements) to evaluate
- Each must be considered – regulator expectation

Private Flood Insurance: “At Least as Broad As”

1. Definition of “flood”
2. Same coverage as SFIP – building, increased cost of compliance
3. Deductible maximums
 - \$10,000 for 1-4 residence
 - \$50,000 for 5+ or non-residential
4. No exclusions other than those in SFIP
5. No conditions that narrow coverage in SFIP
6. Must Include: 45 day notice of cancellation; NFIP availability; one year limitation after denial; cancellation provisions same as SFIP

Interagency Webinar – *expect full review*

Compliance Aid

- **“This policy meets the definition of private flood insurance contained in 42 U.S.C. 4012a(b)(7) and the corresponding regulation.”**
- Interagency Guidance – only this language and cannot reject policy that does not have this language
- By endorsement on Insurance Services Organization private flood forms

Discretionary Acceptance

- 1 Provides coverage in amount required
- 2 By insurer licensed, admitted, approved or recognized surplus lines insurer
- 3 Covers lender and borrower as loss payee (condo exception)
- 4 Provides sufficient protection of the loan consistent with safety and soundness principles
- 5 Conclusion of sufficiency documented in writing

Discretionary Acceptance - Safety and Soundness Considerations

Deductible

- Reasonable based on borrower's financial condition?

Cancellation

- Adequate notice of cancellation to obtain replacement?
- Adequate notice of cancellation to force place?

Conditions

- Mortgagee protection if foreclosure?

Mutual Aid Societies

- Regulator has determined such plans qualify as flood insurance
- Provides coverage amounts required by regulation
- Covers borrower and lender as loss payees
- Provides sufficient protection consistent with safety and soundness principles
- Sufficiency documented in writing

Implementation Considerations

- Policies, procedures and systems updated
 - Responsibility for vendors
 - Who is reviewing the private policies?
 - Agencies expect review of complete policy
- Training for employees
 - Who/How training conducted
- Customer service – dedicated flood employees to take calls
- Written documentation for safety and soundness
 - Obligations to regulator and to investor

Enforcement

- Regulated lender demonstrating “pattern or practice” of noncompliance is subject to monetary penalties
- Factors considered for “pattern or practice”
 - Failure resulted from cause within lender’s control
 - Failure resulted from policy or practice
 - Repeated failure over period of time
 - Percentage of failures related to transactions

For Questions on Flood Insurance

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Questions?

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