Flood Insurance – Increased Coverage for Other Residential Buildings

As a result of the Biggert-Waters Flood Insurance Reform Act, certain changes to the National Flood Insurance Program (NFIP) have been implemented. The provision adjusting coverage for Other Residential Buildings was initially communicated by FEMA. An interagency statement released by the Federal Reserve, FDIC, OCC, NCUA and FCA (the "Agencies") provides guidance to institutions.

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Links:	Interagency Statement - 05/30/2014

The Biggert-Waters Flood Insurance Reform Act contains various provisions that impact compliance with flood insurance requirements. One such change required FEMA to make increased flood insurance available for certain properties, specifically "residential properties of 5 or more residences." This change provided that the maximum flood insurance limit for these properties shall be equal to the coverage amount made available to commercial properties. On May 30, 2014, various supervisory agencies issued an "Interagency Statement on Increased Maximum Flood Insurance Coverage for Other Residential Buildings."

How does this impact financial institutions?

Prior to the implementation of this increased coverage, the supervisory agencies have issued regulations that require flood insurance coverage for loans secured by property in a Special Flood Hazard Area. The amount of required flood insurance is the lesser of:

- The outstanding principal balance of the loan(s); or
- The maximum amount of insurance available under the NFIP, which is the lesser of:
  - The maximum limit available for the particular type of structure; or
  - The "insurable value" of the structure.

As one of the factors in determining the required amount of insurance is the maximum limit available for a particular structure, this change impacts an institution's compliance with the regulatory requirement to ensure sufficient coverage is maintained. This change could affect coverage for **existing** and **future** loans secured by residential buildings designed for use for five or more families, classified as "Other Residential Buildings."

The NFIP maximum coverage for "Other Residential Buildings" is changing from **$250,000** per building to **$500,000**.

What are the regulatory expectations?

The Agencies expect that a lender will take action <u>if it knows</u>, or <u>has reason to know</u>, of the need for NFIP coverage. As highlighted in the Statement, if an institution (or its servicer) receives notification of increased flood coverage limits available for an affected property, steps should be taken to determine if increased coverage is needed.

The Interagency Statement clearly reflects that lenders are not required to perform an immediate, full file search. However, for safety and soundness purposes, lenders may want to review their portfolio to determine if affected properties require additional coverage.

Recommendations for Next Steps

1. Determine whether the institution will take a proactive approach and review its current portfolio for affected properties.
2. If (or when) the institution knows of the need for increased coverage, ensure:
   a. Appropriate notification is given to the borrower that the borrower should obtain additional flood insurance at the borrower's expense for the remaining term of the loan.
   b. If the borrower fails to obtain appropriate coverage within 45 days, purchase coverage on the borrower's behalf.