

Outlook Live Transcript
Flood Insurance Compliance – Examiner Insights
November 19, 2025

Jean Roark – Facilitator:

Hello and welcome to Outlook Live. Today's topic is [Flood Insurance Compliance – Examiner Insights](#). I'm Jean Roark with the St. Louis Fed, and I work in the Center for Learning Innovation. I'll be producing today's event. Before turning the presentation over to Colin Constandse from the Federal Reserve Bank of New York, I'll share our webinar logistics on slide 2.

Slide 2: Welcome to Outlook Live

We are using Zoom for Government today, so thanks for joining us in this virtual space. Hopefully, your stream is working perfectly, but if not, there is a way for you to connect via phone. If you have technical questions, please send them using the Q&A panel, and of course, we'll take your content questions as well in that Q&A spot right here in Zoom.

If you'd like to check out the materials, we've shared links via e-mail for you to access the slides and we'll share them in the chat here in just a few minutes.

We are also offering CRCM CE credits for attending the session. Please complete the survey after the session where you'll be able to indicate whether you'd like to receive CE credits.

Also, feel free to visit our website at www.consumercomplianceoutlook.org and in a week or two, you'll find the session materials and an archive of today's webinar.¹

All right, let me cover some legal language before turning it over to our presenters. The opinions expressed in this presentation are intended for informational purposes and are not formal opinions of, nor binding on the Reserve Banks or the Board of Governors of the Federal Reserve System.

All right, with all that out of the way, let's get started. Colin, I'll turn the floor over to you.

Slide 3: Agenda

¹ The archive of this event is available at: https://www.consumercomplianceoutlook.org/-/media/cco/Outlook-Live/2025/11_19_2025_OL_Recording.mp4.

Colin Constandse – Federal Reserve Bank of New York:

Awesome. Thank you. Hi everyone. My name is Colin Constandse. I'm a commissioned consumer compliance supervising examiner with the New York Fed. I'll be starting this off today with a brief overview of the flood insurance regulations before we dive into our discussion topics.

During the session, as we go through the discussion topics,

- We will discuss common violations identified at Federal Reserve examinations.
- We'll include some hypotheticals and examples to illustrate where we commonly see issues.
- We will also discuss sound practices for compliance with tips related to each of the discussion areas.
- And finally, we have some time at the end of our presentation to complete a moderated Q&A session where we can answer any questions on specific issues related to flood insurance compliance.

Moving to slide 4.

Slide 4: Overview

The flood insurance regulations are issued jointly by the Federal Reserve, the Federal Deposit Insurance Corporation (FDIC), the Office of the Comptroller of the Currency (OCC), the Farm Credit Administration (FCA), and the National Credit Union Administration (NCUA). These regulations were issued to ensure that financial institutions under their supervision comply with the mandatory flood insurance purchase requirements.

The Federal Reserve Board's flood insurance regulation is Regulation H ([12 CFR Part 208.25](#)). In this webinar, we may frequently refer to banks and Regulation H for simplicity, but it's crucial to understand that each agency's issued regulation applies to the institutions it supervises, as listed with the live links on this slide.²

Moving to slide 5.

Slide 5: Overview (continued)

Continuing with some background information that will help contextualize our conversation today. The cornerstone of the flood insurance regulations is a straightforward yet critical prohibition: when lenders make, increase, extend, or renew any loan secured by a building or mobile home located in a special flood hazard area in a participating community, the building or mobile home, along with any

² Refer to each agency's respective regulation: OCC ([12 C.F.R. Part 22](#)), FDIC ([12 C.F.R. Part 339](#)), FCA ([12 C.F.R. Part 614 Subpart S](#)), and NCUA ([12 C.F.R. Part 760](#)).

personal property securing the loan, is required to be covered by flood insurance for the entire term of the loan. Just to be clear, if the lender does not take a security interest in the contents of the building or mobile home, insurance is not required on the contents.

Some important requirements:

- The requirement for flood insurance is activated if the lender makes, increases, extends, or renews any loan. These actions are known as triggering events.
- The loan must be secured by improved real estate or a mobile home that is affixed to a permanent foundation. This means the property must have some form of construction or improvement and cannot be unimproved land.
- Next, the property securing the loan must be located or will be located in a special flood hazard area (SFHA or flood hazard area) as identified by the Federal Emergency Management Agency or FEMA. Flood hazard areas are designated areas with a high risk of flooding.
- And lastly, the community in which the property is located must participate in the National Flood Insurance Program (NFIP). Communities that participate in the NFIP agree to adopt and enforce floodplain management ordinances to mitigate flood damage. In return, the community's residents and businesses become eligible to purchase NFIP flood insurance.

Loans that fit all four criteria are considered designated loans.

Moving to slide 6.

Slide 6: Overview – Flood Insurance Processes

The requirements I mentioned on the prior slide are captured in this visual, which provides a [flow chart](#) of the various flood insurance requirements. This is also linked in the slides provided, if you want to access it.

You'll see here that first, banks must determine whether the building or mobile home is located in a SFHA. To do this, the bank must use the Standard Flood Hazard Determination Form and maintain the determination form as long as the bank owns the loan. If the building or mobile home is located in a flood hazard area, then flood insurance is required. The bank must provide the customer with a notice containing certain information and determine how much flood insurance is required on the property. Finally, banks must ensure the customer purchases an adequate amount of flood insurance prior to originating the loan and, under certain circumstances, force place flood insurance coverage during the life of the loan.

These requirements and procedures are often the source of common violations or deficiencies identified during examinations, such as:

- not appropriately identifying whether a building or mobile home is in a flood hazard area,
- not providing the flood notice to borrowers or not providing it timely,
- not obtaining and or maintaining adequate flood insurance, including for contents when applicable, or
- inadequate force placement practices and procedures, including with timing, notification, and amount.

These are some of the areas that we're going to be covering in our presentation today, and we're also going to discuss how these issues can arise when third parties are involved in one or more of these areas.

Moving to slide 7.

Slide 7: Standard Flood Hazard Determination Form

Our first topic of discussion is the Standard Flood Hazard Determination Form (SFHDF).

Before making a loan secured by a residential or non-residential building or mobile home, a federally regulated lending institution must determine whether the structure is located, or will be located, in a flood hazard area and determine whether it is located in a community that participates in the NFIP. This requirement applies even if a creditor takes a security interest simply out of an abundance of caution.

I quickly want to note here that in the presentation, references to the Interagency Questions and Answers Regarding Flood Insurance (Q&As) will be made based on the Q&A category designations.³ For example, you'll see here the Standard Flood Hazard Determination Form topic is categorized as SFHDF and includes Q&As 1 through 4.

Continuing on, lenders must document the flood hazard determination using FEMA's flood determination form and retain a hard or electronic copy of the form throughout the term of the loan.

Making a flood determination as early as possible in the underwriting process is a sound practice because it allows time for the borrowers to obtain insurance if it is required and for the lender to meet all other obligations that such a determination may trigger.

Lenders often inquire whether they may rely on a prior flood hazard determination for the same property.

³ Refer to [Loans in Areas Having Special Flood Hazards; Interagency Questions and Answers Regarding Flood Insurance, 87 FR 32826](#) (May 31, 2022).

Under Interagency Flood Q&A, [SFHDF 4](#), a lender may rely on its own prior determination when it is increasing, extending, or renewing a loan secured by the property if three conditions are satisfied.

- First, the prior determination was made within seven years of the date of the transaction.
- Second, the determination form reflects the basis of the determination.
- And third, FEMA has not revised or updated the map affecting the property since the original determination was made. Lenders can determine when the last update was made to a flood map for a particular address from FEMA's website ([FEMA Flood Map Service Center | Welcome](#)).

A lender may not rely on a determination made by a different lender when the loan involves a refinancing or assumption made by a lender different from the one who obtained the original determination. This would constitute the making of a new loan, thereby requiring a new determination.

Let's move to the next slide.

Slide 8: Standard Flood Hazard Determination Form (continued)

Banks must retain a copy of the completed determination form in either a hard copy or electronic form for as long as the bank owns the loan ([§ 208.25\(f\)\(2\)](#)). However, in the final rule adopting the determination form, FEMA stated: "if an electronic format is used, the format and exact layout of the Standard Flood Hazard Determination Form is not required, but the fields and elements listed on the form are required. Any electronic format used by lenders must contain all mandatory fields indicated on the form." It should be noted that the lender must be able to reproduce the form upon receiving a document request by its federal supervisory agency ([SFHDF 3](#)).

Additionally, banks are permitted to provide a copy of the determination form to the customer, but this does not fulfill the notice requirements, which is a separate regulatory requirement that we'll cover on the next slide ([SFHDF 1](#)).

We have seen some issues in Federal Reserve examinations where a determination form is not run prior to the loan origination or a form older than seven years is relied upon. These were often noted during a triggering event during the life of the loan, and a determination form was not completed. In these instances, while the lender may already know the loan is in a flood hazard area, it is always required that a determination form is completed or that an older form is relied on when allowed by the regulation.

Moving to the next slide.

Slide 9: Notice of Special Flood Hazards

Next, I'll be discussing the Notice of Special Flood Hazards, another area that sometimes presents challenges to institutions.

When a bank engages in making, increasing, extending or renewing a loan secured by a building or mobile home situated in a flood hazard area, it is mandated to mail or deliver a written notice to both the borrower and the servicer. This requirement applies universally irrespective of the availability of flood insurance under the NFIP.

There are three aspects of this required notice that I'll cover.

- 1) Content,
- 2) Timing, and
- 3) Recordkeeping

Beginning with content. The notice content is detailed in the section listed ([§ 208.25\(i\)\(1\)](#)) and can be referenced via the sample provided in Appendix A. If there are multiple borrowers, the letter may be sent to one borrower ([Notice 1](#)).

It is imperative to understand that the requirement to provide a flood hazard notice is not a one-time requirement. This notice is mandatory for each triggering event associated with the loan, regardless of whether prior flood hazard determinations have already been made or relied upon. This ensures that borrowers are informed about the flood risks associated with their property whenever there is a significant change to the loan terms.

Timing of the notice. The flood hazard notice must be provided within a reasonable timeframe before the transaction's completion. What is considered reasonable can vary depending on the circumstances of the transaction. However, 10 calendar days is generally considered reasonable and considered a sound practice. The key is to ensure that the borrower has the opportunity to become aware of the borrower's responsibility under the Act and where applicable to purchase flood insurance before completion of the loan transaction.

Lastly, record keeping. In addition to providing the notice, the lender is required to maintain a record of receipt for the duration that the loan remains under their ownership. This record should serve as proof that the borrower was adequately informed about the flood hazards. The most common form of record is a signed acknowledgement from the borrower confirming that they have received and understood the notice.

Moving on to slide 10.

Slide 10: Common Notice Violations

Recently, violations related to flood insurance notices have been identified during several examinations. Most of the violations were due to either inadequate training of employees or decentralized processes that resulted in inconsistent provision of these notices.

Examiners identified instances where notices were not provided, which often occurs when an institution fails to recognize that a triggering event has occurred, often for an existing loan. Even if a bank has previously determined that a property is in a special flood hazard area and has provided a notice, a new notice must still be issued for each triggering event, consistent with the regulatory requirements. Triggering events may include loan modifications, renewals, and restructurings, so long as there is an increase, extension, or renewal. Institutions are encouraged to have procedures in place to recognize these events and ensure that a new notice is provided each time. As a result, it's important that bank staff have a clear understanding of what constitutes a triggering event and the implementation of policies that mandate the issuance of a new notice for each such event.

The other common violation related to notices involves the failure to provide the notices timely. We often see this with decentralized processing for determinations in the mailing of notices. When the processes for pulling the determination and mailing the notice are not aligned or are handled by different departments, it can lead to delays in sending the notice and inconsistencies and gaps in documentation. In these decentralized processes, the flood determination and the mailing of notices are often not conducted concurrently – so it becomes important to document when the notice is mailed or delivered to ensure that there is a clear record of when the notice was provided, so examiners can review for compliance purposes. Without proper documentation, examiners may rely on the record of receipt from the borrower.

Untimely notices have also been noted when institutions rely on verbal communication rather than sending a written notice. While it's permissible to call a customer to inform them of the flood insurance requirements, this method does not fulfill the regulatory requirement to provide a written notice. Institutions must ensure that a written notice is provided to the borrower in addition to any verbal communication to meet regulatory standards. Again, without an established and documented process for providing the notice and record of when the notice was provided, examiners will default to the record of receipt to assess timeliness.

Given these common violations, institutions are encouraged to have comprehensive procedures that capture these events to ensure that notices are provided as required. This may include establishing clear protocols for completing determinations and mailing of notices, ensuring that written notices are always sent in addition to any verbal communication, and having policies and procedures in place to recognize and respond to triggering events. Additionally, appropriate recordkeeping is essential to document when notices are provided or mailed to demonstrate compliance.

By addressing these areas, institutions can significantly reduce the risk of violations and ensure they meet all regulatory requirements.

I'll now turn it over to Chrissy to cover the next few areas of our presentation.

Chrissy Sager – Federal Reserve Bank of Kansas City:

Thank you, Colin. As Colin mentioned, my name is Chrissy Sager, and I am a commissioned examiner with the Federal Reserve Bank of Kansas City.

Slide 11: Flood Insurance Coverage

I will get us started on discussing the third topic, which is flood insurance coverage and move through items related to flood insurance at closing.

The regulation states that a lender cannot make a designated loan without adequate flood insurance coverage being in place ([§ 208.25\(c\)\(1\)](#) and [Applicability 15](#)). A lender should use the loan “closing date” to determine the date by which flood insurance must be in place. FEMA deems the closing date as the day the ownership of the property transfers to the new owner based on state law.

As noted on the slide, for a wet funding state, the transfer of property ownership and document signing occur on the same day, indicating that flood insurance should be effective the same day documents are signed.

For a dry funding state, the date of document signing and title transfer occur on different days, and the closing date would be the date of property transfer. In these cases, the flood insurance must be effective by the time the property is transferred, so for example, when the deed is recorded.

In addition to the timing requirements regarding flood insurance, the amount of flood insurance must be adequate in accordance with the regulation. The regulation requires that flood insurance coverage must be equal to the lesser of the outstanding principal balance of the loan or the maximum amount of insurance available under the NFIP.

Determining the maximum amount of insurance available under the NFIP is a two-component process that includes understanding the maximum coverage limit available through the NFIP and the insurable value, which we will break down further on the next few slides.

Moving to slide 12.

Slide 12: Flood Limit Coverages

This slide includes a table to illustrate the maximum coverage limits for flood insurance available under the NFIP for the structure being insured. As you can see in the table, contents coverage is broken out separately from the coverage for the structure itself and has its own limits.

- Residential single-family dwellings, 2-4 family dwellings, and individually owned condo units are capped at \$250,000, and contents coverage is capped at \$100,000.
- Residential condominium buildings, which may be insured through a Residential Condo Building Association Policy (or RCBAP), can be insured up to \$250,000 times the number of units in the building. Contents coverage is again capped at \$100,000. Of note – this would include contents located in a shared lobby as an example and is not per unit or for contents located in individual condo units.
- Lastly, the maximum coverage limit for flood insurance available under the NFIP for nonresidential buildings, which includes “other buildings”, residential buildings designed for use by five or more families that are not condominium buildings, and nonresidential buildings may be insured for up to \$500,000 for each structure and \$500,000 for contents coverage per structure.

Let's talk about contents coverage in a little more detail. As you know, flood insurance is dependent on how the loan is being collateralized. If your promissory note or security agreement takes contents in the building as collateral, then contents coverage is required in addition to flood insurance coverage for the building. Contents coverage would not be required if the building is not taken as collateral. Here in a few slides, we will walk through an example where contents are being taken as collateral and demonstrate how to determine the adequate amount of flood insurance needed at loan closing.

Now that we have reviewed the maximum coverage limits for flood insurance available under the NFIP, let's talk more about insurable value.

Moving to slide 13.

Slide 13: Insurable Value

As stated on slide 11, when evaluating the maximum amount of flood insurance available under the NFIP, the lender must determine the insurable value of the structure and contents, if applicable, securing the loan. NFIP policies do not cover land. Miscalculating insurable value could cause the lender to inadvertently require the borrower to purchase too much or too little flood insurance coverage. For example, if the value of the land is not excluded when determining insurable value, the borrower will purchase coverage exceeding the amount the NFIP will pay. This is important

because the NFIP policy will not cover amounts exceeding the insurable value of the structure or contents.

The Q&As ([Amount 2](#)) explain that the insurable value of a building may generally be the same as 100% replacement cost value, which is the cost to replace the building with the same kind of material and construction without deduction for depreciation.

The Q&As also identify ways in which the insurable value can be determined. For example, a lender can determine the insurable value by obtaining an appraisal based on cost-value approach as opposed to a market-value approach, a construction-cost calculation, the insurable value based on a hazard policy, the replacement cost value listed on the declarations page of a flood insurance policy, or the lender and borrower may also choose any other reasonable approach to establishing the insurable value as long as the approach can be supported. If a lender selects this insurable value method, it is helpful for examination purposes for the lender to have documented the basis for their decision.

Identifying an appropriate insurable value is an area where we see some lenders struggle. This is an important piece of information when determining if a loan is adequately insured for flood. If the lender is not identifying an insurable value and is defaulting to matching the outstanding principal balance of the loan, the lender could be requiring the customer to obtain more insurance than is required. While lenders are permitted to require more than the minimum amount of flood insurance needed to protect its collateral, the lender should consider the extent of recovery allowed under the NFIP or private policy to prevent situations where borrowers pay for coverage that exceeds the amount the insured would recover in the event of a loss. This is discussed in Q&A [Amount 8](#).

Next, I'm going to hand it over to Colin to walk us through a couple of examples.

Colin Constandse – Federal Reserve Bank of New York:

Slide 14: Calculating Coverage for a Residential Building

Thank you, Chrissy.

We have now reviewed all the components needed to identify the amount of flood insurance that is required at loan closing.

Let's look at an example using a residential 1-4 family home.

- The illustration on slide 14 is a loan collateral collateralized by a 1-4 family residential home located in a standard flood hazard area in a participating community.

- The summary information identifies that the outstanding principal balance of the loan is \$225,000, which you can see notated in the table.
- We know that the maximum coverage limit for flood insurance available under the NFIP for a 1-4 family residential building is \$250,000, as we discussed on slide 12.
- However, since an NFIP policy will not cover an amount exceeding the “insurable value” of the structure, the next step would be to compare the \$250,000 NFIP maximum coverage limit to the insurable value. In this case, the lender determined the insurable value as \$260,000 using an appraisal with the cost approach, so the maximum amount of insurance available through the NFIP would be \$250,000, which is the lesser of the maximum coverage limit and the insurable value.
- Since the required flood insurance must be at least at least equal to the lesser of the outstanding principal balance of the designated loan or the maximum insurance available through the NFIP, we would take the lesser of the \$225,000 outstanding loan balance and the \$250,000 we previously determined as the maximum available through the NFIP, which results in the minimum required insurance of \$225,000.

Now that was a basic example. Let's move on and make sure we're comfortable determining the minimum amount of flood insurance required when we have multiple buildings securing a loan.

Moving to slide 15.

Slide 15: Calculating Coverage for Multiple Buildings

Now, before we jump to this next example, I do want to quickly highlight that this example was taken from a previously released *Consumer Compliance Outlook (CCO)* article, [Commercial Flood Insurance Compliance – Washing Away Common Pitfalls](#), which is linked in the slide. This article contains several examples of more complex situations and is a great resource for your reference.

In this example, we have three buildings securing a loan. Those three buildings include a residential farmhouse, a commercial barn, and a commercial silo. All buildings are located in the standard flood hazard area and are in a participating community.

- First, we need to identify the outstanding principal loan balance, and from the information provided in the example, we know that it is \$1 million, which is reflected in the table towards the bottom.
- Next, let's look at the maximum coverage limits available through the NFIP. We need to look at this for each structure separately:
 - Starting with the farmhouse, this is a residential 1-4 family structure, so the maximum coverage limit under the NFIP would be \$250,000.
 - For the commercial barn, this is a non-residential building, so the maximum coverage limit would be \$500,000.

- Lastly, for the commercial silo, this is also a non-residential building, so the maximum coverage limit would also be \$500,000.
 - All of these values have been listed in the table in that middle column for your reference.
- In this example, the assumption is that neither the barn nor the silo qualifies under the detached structure exemption since they are used for commercial purposes. Slide 12 includes a link to Q&A [Exemptions 1](#), which clarifies which structures on residential property qualify for the detached structure exemption.
- Now we need to identify the insurable value for each of these buildings.
 - For the farmhouse, the summary information tells us this is \$150,000, the commercial barn is \$100,000, and the commercial silo is \$600,000.
 - These values have been included in the table in the far-right column and would have been determined by the lender using one of the methods mentioned on slide 13, such as through an appraisal using a cost-value approach.
- Now let's look at each of the buildings using the table and determine the maximum amount of insurance available through the NFIP, which again, is the lesser of the maximum coverage available through the NFIP and the insurable value.
 - For the farmhouse, the insurable value of \$150,000 is lower than the maximum coverage limit through the NFIP of \$250,000.
 - For the barn, the insurable value of \$100,000 is lower than the maximum coverage limit through the NFIP of \$500,000.
 - And for the silo, the insurable value of \$600,000 is greater than the NFIP maximum coverage limit of \$500,000, so we're going to use the lower of the two and keep the \$500,000 NFIP coverage limit.
 - Those values have all been identified in the table using a green circle.
- Now, since this is a more complicated example, we still have some more work to do. With that said, we need to aggregate those numbers together to determine the maximum amount of flood insurance available under the NFIP, which for this example, those values would aggregate to \$750,000 (with \$150,000 from the farmhouse, \$100,000 from the barn, and \$500,000 from the silo), which is also reflected on the slide and circled in green.
- Our next step is to now compare the \$750,000 aggregate maximum amount of flood insurance available against the outstanding principal loan balance of \$1,000,000 and select the lower of the two. This comparison tells me that the minimum required amount of flood insurance coverage that should be in place at the time of loan closing is \$750,000 with the amounts determined through these calculations.

I'll now turn it back over to Chrissy to cover a few more examples.

Chrissy Sager – Federal Reserve Bank of Kansas City:

Great. Thank you, Colin.

Slide 16: Contents Coverage

Let's look at contents coverage on Slide 16.

In addition to real property securing a loan, contents can also be identified on the security instrument and used to collateralize a loan.

As noted on the slide, when a loan is secured by a building and its contents and is located in the special flood hazard area in a participating community, flood insurance is required for both the building and the contents ([Other Security Interests 7](#)). The Interagency Flood Q&A's clarify the lender cannot exempt the contents from required coverage because the lender took a security interest inadvertently or out of an abundance of caution. Further, when a security interest does exist, flood insurance is required regardless of whether the security interest is perfected under applicable state law. We sometimes see contents included as collateral for commercial transactions where loans are secured by business assets located in the commercial building.

As previously noted on slide 12, the maximum limit of coverage available through the NFIP is \$100,000 for residential contents and \$500,000 for non-residential contents.

Let's walk through a quick example to help us review the rules around contents coverage. This loan is secured by a commercial building that contains a restaurant and its commercial equipment or said differently, its contents.

- For me, the easiest piece of information to gather when determining flood insurance coverage amounts is to first make note of the outstanding principal balance, which for this example is \$650,000.
- Next, let's identify the maximum coverage limit for flood insurance available under the NFIP.
 - First, let's look at the building. We know it's a non-residential building which would allow for \$500,000 in maximum coverage through the NFIP.
 - Next, we have contents to also consider. Again, we have non-residential contents, which would allow for \$500,000 in contents coverage through the NFIP.
- Now we need to determine the insurable value for both the building and the contents.
 - The example identifies for us that the restaurant building is valued at \$700,000.
 - And the contents are valued at \$50,000.
- Now let's look at the information we gathered thus far for the building and the contents and determine the maximum amount of coverage available under the NFIP, which again is the lesser of the NFIP coverage limit and the insurable value.

- Looking at the slide and focused on the building, we would select the \$500,000 as the lesser value, which is circled in green.
- Next for the contents, we would select the insurable value of \$50,000, also circled in green.
- Now we would aggregate those together and compare against the outstanding loan balance. That would give us \$550,000 compared against the outstanding loan balance of \$650,000.
- So for this loan, the minimum required amount of flood insurance for the building and its contents is \$550,000.

Let's move on to slide 17 and talk about mixed-use properties.

Slide 17: Mixed-Use Properties

For this example, we have a loan that is secured by an apartment building that contains 15 individual apartment units and a convenience store. The building is in a standard flood hazard area and in a participating community.

- First, I wanted to highlight for this example, the building is not eligible for a Residential Condo Building Association Policy because the units are rental apartments and not condominium units.
- Let's take a moment and determine what type of building we're working with. It has both residential rental apartments and a convenience store. Based on additional information provided in the table, we also know that the non-residential use (or the convenience store) is less than 25% of the building's total floor area. So, based on this information, we know this is an example of an "other residential building". Now that we have that identified, let's move into the numbers.
- Based on our prior examples, I bet you already know that I'm going to take note of the outstanding principal loan balance first, which is \$2 million.
- Next, let's identify the maximum amount of flood insurance available under the NFIP. We know that we are working with a building that is considered an "other residential building," which allows for \$500,000 in maximum coverage through the NFIP.
- Now we need to determine insurable value for the building. The example identifies for us that the building is valued at \$1.5 million. If you are thinking about where they got the insurable value, remember that can be done in a variety of ways that were discussed on slide 13.
- Now let's look at the information we gathered for the building and determine what value is lesser and should be included in our determination of the amount of flood insurance required. Looking at the slide, we have determined that the insurable value is \$1.5 million and the maximum amount available through the NFIP is \$500,000. Therefore, we would

bring forward the \$500,000 and compare that value against the outstanding loan balance of \$2 million, and select the lesser, which is the \$500,000.

- For this loan, the minimum required amount of flood insurance is \$500,000.

Moving to slide 18.

Slide 18: Flood Insurance Coverage Violations

Earlier, Colin reviewed some common violations that are seen related to the Notice of Special Flood Hazards and emphasized the importance of policies and procedures to assist in a lender's flood insurance processes. Let's look at some common violations we see related to flood insurance coverage.

Sometimes we see instances where flood insurance is either not in place or the amount is insufficient at the time of loan closing.

- First, I want to highlight that it's important to ensure that policies and procedures are in place to appropriately calculate and identify the amount of flood insurance required at loan closing. We have seen some instances where lenders struggle to identify an insurable value and then don't include that in their determination of the amount of flood insurance that is required. We have worked through some examples and provided some resources that will hopefully assist in that process.
- I also want to share that conducting a pre-close review of the flood insurance obtained is a sound practice we have observed that helps to mitigate the risk of insufficient flood insurance at closing. Items reviewed as part of a pre-close review can include ensuring the amount of flood insurance obtained is sufficient, that the policy effective date is appropriate, to identify the type of flood insurance obtained and any necessary due diligence, meaning is it an NFIP policy or a non-NFIP policy. If it is a non-NFIP policy, then the lender can ensure either mandatory or discretionary standards are used. This is also an opportunity to ensure that the Notice of Special Flood Hazards has been provided, signed and dated by the borrower, and retained in the loan file.
- I want to quickly highlight why a review of flood insurance amount is prudent prior to loan closing. We have seen some instances where the lender identifies the amount of flood insurance required, but then later on in the process the loan amount is modified for whatever reason or the collateral is changed having a downstream impact on the amount of flood insurance required.
- Additionally, this is an opportunity to review if there are any limits on the flood insurance policy that would cause it to be considered insufficient. For example, the slide identifies per occurrence limits and outlines how this could be problematic.

Let's talk about some other common violations on slide 19.

Slide 19: Flood Insurance Coverage Violations (continued)

Two other noteworthy issues that we see are related to failing to obtain insurance for all buildings and failing to obtain flood insurance for contents, when contents are taken as collateral.

- For the failing to obtain insurance for all buildings, it is important to understand how a loan is collateralized to ensure all buildings are appropriately insured. As a reminder, each building located in a special flood hazard area and a participating community that secures a loan must be insured ([Amount 6](#)). We reviewed an example on slide 15 regarding calculating coverage for multiple buildings, which is hopefully helpful.
- We also explored an example that included contents coverage for your reference. Examiners have seen situations where banks unknowingly created a security interest in commercial contents when language was added to the loan agreement or security instrument to include certain business assets as collateral. For example, we've seen some blanket security agreements take furniture, fixtures, and equipment, and other agreements that take all inventory as collateral. Because the lender did not intend to take the contents as collateral and was unaware of the security interest, the bank did not follow its flood insurance policies and procedures and exposed itself to the risk of noncompliance.
- Therefore, it is important that lenders review and understand the loan agreements and security instruments being used to ensure that any collateral securing the loan is known, intentional, and flows through to any requirement for flood insurance as applicable.

Slide 20, please.

Slide 20: Flood Insurance Options

As we have been discussing the required amounts of flood insurance, we should explain the types of flood insurance that can be purchased as this will lead us into our next few slides.

- The National Flood Insurance Program, or the NFIP, is managed by FEMA and provides policies to the public through a network of so-called Write Your Own or WYO insurance companies and through [NFIP Direct](#).
- Alternatively, a borrower can purchase a non-NFIP flood insurance policy through private insurance companies or obtain a mutual aid plan under certain circumstances. This slide contains a link to a previously published article ([Overview of Private Flood Insurance Compliance Requirements](#)) that is a great resource that walks through these types of policies and the different types of acceptances a lender may use when reviewing and accepting these policies. We will review mandatory and discretionary acceptance practices on the next few slides as well.

We've received quite a few questions regarding the flood insurance requirements and how they

were impacted by a lapse in NFIP appropriations during the recent government shutdown, so we included a link to Q&A [Applicability 12](#) on this slide, which addresses the applicability of the mandatory purchase requirement when NFIP coverage is not available. During these periods, lenders may continue to make loans subject to the regulation without requiring flood insurance coverage. However, lenders must continue to make flood determinations, provide timely, complete and accurate notices, and comply with other parts of the regulation. This Q&A also includes some options lenders can take when coverage under the NFIP is not available. See [Applicability 12](#) for further details. If the lender originated a loan without requiring coverage, the agencies expect that flood insurance will be obtained for these loans, including, if necessary, by force placement.

Before moving on, I did want to highlight that previously in the presentation we talked a little bit about the Notice of Special Flood Hazards. This notice is required to contain content that helps to inform the borrower of the different ways in which they can purchase flood insurance either through the NFIP or non-NFIP policies along with encouraging borrowers to compare coverage options.

Let's move on to slide 21.

Slide 21: Private Flood Insurance Mandatory Acceptance

Now we will move on to discuss our fourth topic, private flood insurance.

As previously mentioned, private flood insurance can be accepted through either the mandatory acceptance processes or through discretionary acceptance. Let's first take a closer look at the mandatory acceptance of private flood insurance.

Let's first talk about the compliance aid statement.

If a private flood insurance policy includes the compliance aid statement, which is included on the slide for your reference, the lender may choose to rely upon the statement and would not need to review the policy further to determine if the policy needs the definition of private flood insurance ([Mandatory 5](#)). Meaning you can accept the policy at face value if this statement is contained within the policy or as an endorsement to the policy, but the lender would still need to ensure that the amount of coverage is sufficient.

Lenders, however, are not required to accept the policy based on inclusion of the compliance aid statement alone and can further evaluate to determine if the policy meets the definition of private flood insurance allowing for mandatory acceptance or determine if the policy is acceptable under discretionary or mutual aid criteria.

OK, so what if we have a policy that is from a private insurer that does not contain the compliance aid clause? There are two paths forward here, one of which would be to review and determine if the

policy meets the definition of private flood insurance as defined by the regulation. If so, this would require mandatory acceptance of the policy. The bank could also choose to evaluate the policy and determine if it is permissible to accept it under the discretionary acceptance standard.

We are not going to go through the criteria a bank would need to consider to determine if a non-NFIP policy meets the definition of private flood insurance. If you do have questions about the specific requirements, the agencies covered this in detail during the [June 2019 Outlook Live](#) on the private flood insurance rule, which is included on the resource slide of the presentation for your ease of reference.

Let's move on to slide 22.

Slide 22: Private Flood Insurance Discretionary Acceptance

Now that we have talked about mandatory acceptance of private flood insurance, let's discuss the discretionary acceptance provision. As noted on the slide, a lender is permitted to accept a policy that is not issued under the NFIP and that does not meet the regulation's definition of private flood insurance if it meets the regulations discretionary acceptance criteria.

We won't go over these criteria in detail since this material was covered in depth during the June 2019 Outlook Live on the private flood insurance rule, but as you can see from the different private flood insurance provisions, it is important for lenders to identify the type of insurance a borrower is using, including whether it is an NFIP policy or a policy offered by a private insurer, allowing the lender to begin its due diligence to ensure the policy meets the mandatory or discretionary acceptance provisions as applicable.

As noted in the last bullet, if the lender is using discretionary acceptance and validating that the policy meets the provisions described in the slide, the lender must document its conclusions regarding the sufficiency of protection in writing. The regulation does not require specific documentation, and lenders may include any information that reasonably supports the lender's conclusion following review of the policy.

One area that we want to call attention to is that both the mandatory and discretionary acceptance provisions include a requirement to review the insurer. [Private Flood Compliance 9](#) addresses how a lender can determine whether an insurer is licensed or admitted in a particular state or whether a surplus line or non-admitted alien insurer is permitted to issue an insurance policy in a particular state. The lender may refer to the state insurance regulator's website where the property is located to make this assessment. And if the lender can't determine this information from the website, the lender could contact the state insurance regulator directly. With respect to surplus lines insurer eligibility, information may be available in the [Consumer Insurance Search \(or CIS\) tool](#) available on the [National Association of Insurance Commissioners \(or the NAIC\) website](#). And lastly, with respect

to non-admitted alien insurers in particular, lenders could review the NAIC's quarterly listing of alien insurers.

Next, let's review some examiner insights related to private flood insurance on slide 23.

Slide 23: Private Flood Insurance Examiner Insights

Sometimes we identify circumstances where a lender is accepting a flood insurance policy but is not taking note of the type of policy to determine if it is an NFIP policy or a non-NFIP policy. This could signal that the lender is not recognizing when the policy is a non-NFIP policy or private flood insurance policy and understanding whether the mandatory or discretionary acceptance standards apply. This is why we spent a little time reviewing private flood insurance policies to help raise awareness of these issues and the processes lenders can use to accept private flood insurance.

I do want to highlight that a lender cannot reject a private policy solely because it is not accompanied by the compliance aid statement. The statement is meant to be an aid for lenders and is not required for lenders to accept a flood insurance policy issued by a private insurer.

While we recognize that our coverage of the private flood insurance provisions was done at a relatively high level, we would encourage you to reference the two Outlook Live webinars we previously hosted that do a deeper dive into the Interagency Private Flood Insurance Rule. Specifically, in June 2019, we hosted an Interagency Outlook Live webinar where the agencies provided an update on the private flood insurance rule. In addition, in July 2022, the agencies hosted a webinar on the updated flood insurance Q&As ([2022 Interagency Flood Insurance Q&As Webinar](#)), which highlighted several of the Q&As related to private flood insurance. Links to both webinars and several articles that we published through *Consumer Compliance Outlook* are included on slide 31 for your reference.

Next, Meg is going to cover loan modifications.

Meg Finney – Federal Reserve Bank of New York:

Thanks, Chrissy.

Hello everyone. I'm Meg Finney and I'm a consumer compliance supervising examiner with the New York Fed.

Slide 24: Flood Insurance at Loan Modification

Let's shift our focus and talk about our next topic, loan modifications and loan restructurings, and why those should be on a lender's radar when it comes to flood requirements. When a loan modification or restructuring involves increasing, renewing, or extending a designated loan, the flood insurance regulatory requirements are triggered. A simple payment deferral or forbearance program is typically not considered a triggering event provided it does not extend the loan's maturity date. Examples of triggering events include short-term extensions or a loan renewal.

Another common question that arises is whether the capitalization of delinquent payments, interest and fees, or other amounts such as flood insurance premiums into the loan's outstanding principal balance is considered a triggering event. [Applicability 6](#) and [Force Placement 10](#) address these scenarios. You can reference these two Q&A's for additional information, but the short answer is that it would depend on whether the specific situation is contemplated as part of the loan contract. As an example, if the loan contract addresses the capitalization of insurance premiums when a borrower fails to provide adequate coverage, a bank that force places and capitalizes interest would not be considered to be increasing the loan and this would not constitute a triggering event.

Regarding the Standard Flood Hazard Determination, a lender may rely on upon a previous determination as Colin described earlier. However, the Notice of Special Flood Hazards is required to be provided to the borrower when the modification or restructuring is considered a triggering event. Failing to provide this notice on loan modifications is a common violation.

Lastly, sufficient flood insurance should be in place at the time of the modification.

Now let's move to slide 25 to discuss force placement of flood insurance.

Slide 25: Force Placement of Flood Insurance

If, after origination and at any time during the life of a loan, a lender becomes aware that there is a lapse in flood insurance coverage or there is an inadequate amount of coverage on a property located in a special flood hazard area in a participating community, the lender must begin the force placement process ([Force Placement 1](#)).

There are several common events that might trigger the force placement process. One is if an existing flood policy has expired but the lender hasn't received notification of a renewal policy. Another is if the coverage on an existing policy becomes inadequate, which is usually due to a decrease in coverage or the failure to renew insurance for all applicable buildings or contents. And the third is if a property has recently been mapped into a special flood hazard area.

FEMA routinely updates their flood maps, which can result in properties being mapped into or out of a special flood hazard area. If the property maps into a special flood hazard area and the lender

receives a relevant notice from FEMA (or its life of loan monitoring vendor) regarding remapping, the property will require flood insurance where it had not previously. If a property is mapped out of a special flood hazard area, that property will no longer be required under the regulations to have flood insurance, and the lender will no longer be responsible for monitoring or escrowing flood insurance, although, as noted in the Q&As, they may choose to be.

Once a lender becomes aware there is no or inadequate flood insurance coverage on a property securing a loan, the lender must start the force placement process as soon as possible.

The first step in the force placement process is to send a notice to the borrower. The notice should advise the borrower that they have 45 days to obtain flood insurance and provide proof of coverage. The notice should advise how much insurance they must have at a minimum, when they must provide proof of coverage, where and how they can provide proof of coverage, and that any force-placed policies will be at the borrower's expense.

NFIP policies have an automatic 30-day grace period in which the policy may be renewed after expiration. This is another reason it's important that lenders send the 45-day notice timely upon identification of expiration to not jeopardize the borrower's chance to renew their existing NFIP policy.

Lenders or their third-party vendors may send courtesy notices prior to expiration; however, these courtesy notices, even if they contained the required force placement information, would not satisfy the 45-day notice regulatory requirements ([Force Placement 4](#)). To satisfy the regulatory requirement, the notice must be sent upon determining that the flood insurance policy has already lapsed or is insufficient.

Moving to slide 26.

Slide 26: Force Placement of Flood Insurance (continued)

Once the 45-day notice period has passed, the force-placed flood insurance policy should be put in place as soon as possible. The Q&As, as referenced on this slide, clarify that lenders may force place flood insurance during the 45-day notification period ([Force Placement 7](#)) and may charge the borrower for premiums beginning on the day of the lapse ([Force Placement 9](#)).

An escrow account may be set up if there had not been one previously in place for the loan, or an advance can be made from the existing escrow account if there aren't sufficient funds to cover the force-placed policy charge.

Charges, payments, and escrow setup will follow the terms of the individual security instrument.

If a borrower provides proof of flood insurance coverage after the force-placed policy is in place, the lender must cancel and refund any premiums where there was overlapping coverage. Again, there cannot be double coverage per the regulations.

If the borrower provides proof of continuous coverage, the lender must cancel and refund the premiums for the force-placed insurance premiums. If there was a lapse in coverage, the bank would only need to refund premiums for any overlapping coverage.

Moving to slide 27.

Slide 27: Force Placement Examples

If a borrower has a flood insurance policy, but the coverage is inadequate, the lender must initiate the force placement process to have the borrower obtain the minimum required flood insurance coverage for that property. If the borrower does not increase their flood coverage, the lender would need to force place coverage for the insufficient amount.

For example, if a property requires a minimum of \$250,000 in flood insurance and it only had \$175,000 through the borrower's current policy, the lender would have to force place \$75,000 to bring the total coverage up to \$250,000.

The force placement process for inadequate coverage is the same as when there is no coverage and still starts with the 45-day notice to the borrower.

Where you will occasionally see this situation is with condo insurance policies or RCBAPs where the flood insurance policy covers the entire building and not individual units. The condo insurance should be enough to cover the lesser of either the replacement cost value for the entire building or the NFIP maximum, which is \$250,000 per unit.

In the example on this slide, the replacement cost value is \$10 million and there are 10 units, which is higher than the NFIP maximum. There should be a total coverage amount of at least \$2.5 million to be adequate (i.e., \$2.5 million divided by 10 is \$250,000 in coverage per unit equaling the NFIP maximum).

If there was only \$1 million in total coverage, that would equate to \$100,000 per unit, which would not be enough flood insurance coverage. In this instance the lender would need to force place a policy for \$150,000.

Since the individual unit owners cannot change the RCBAP policy, they must wait until the condo association increases the flood coverage. Since this affects all unit owners that have a mortgage on their unit, it does usually get resolved, but the condo owner must either obtain a separate policy to

cover the difference or accept the force-placed coverage. Whereas for an individual homeowner, borrowers can typically increase their coverage on their own once they are notified that their coverage is inadequate.

Moving to slide 28.

Slide 28: Force Placement of Insurance Issues

Common compliance issues that come up relating to force placement of flood insurance often come from monitoring and reporting where lapses and flood insurance coverage aren't identified timely, remapping notices aren't acted on, and where force placement doesn't occur timely after the 45-day notice. All of these can become bigger systemic issues if there is inadequate reporting and monitoring to identify these events.

Another common issue is if force-placed insurance premium refunds are inaccurately calculated, resulting in borrowers not receiving the full refund they are entitled to. Testing should be done to ensure accurate refunding calculations and practices.

Reviewing evidence of flood insurance and coverage at renewal or upon a new policy and having system triggers in place anytime there is a change in coverage amount or expiration date should be common practices to avoid issues.

Advancing expiration dates should be monitored to ensure this is not being done erroneously, thus leading to missed expirations, lapses, and loss of grace period renewal opportunities.

Banks are encouraged to maintain appropriate oversight and monitoring, including of relevant vendors, to ensure proper functioning of all these processes.

Life-of-loan monitoring is not expressly required by regulation; however, without life-of-loan monitoring, flood determination and insurance coverage and insurance changes would be challenging to track and could result in broader CMS concerns and lead to violations.

Moving to slide 29.

Slide 29: Force Placement Sound Practices

Lenders should maintain appropriate oversight to ensure adequate controls and monitoring are in place and regular testing is performed on processes surrounding flood monitoring, policy coverage, and force placement, including ensuring that appropriate notices are provided to customers.

Some additional considerations for strong CMS controls also include reviewing vendor notices for

flood zone map changes, cancelling force-placed policies, refunding for double coverage, and reviewing both new and renewal policies for adequacy. It is standard for lenders to use third parties to manage part or all the flood insurance process that can be from origination for monitoring through the life of the loan, including providing notification to the borrower or for force placement processes and policies. When banks engage vendors to assist with flood insurance processes, there should be adequate monitoring and oversight in place. Whether or not the lender handles these processes in house or through a third party, the responsibility for regulatory compliance is still with the lender.

Moving to slide 30.

Slide 30: Third-Party Considerations

We'll cover our final topic, third-party risk management. Strong CMS practices are encouraged for all third-party relationships. These may include:

- Performing regular risk assessments of outsourced activities.
- Establishing performance expectations and maintaining appropriate oversight and monitoring.
- Ensuring appropriate use and application of security instruments at origination and adequacy of insurance coverage at origination and throughout the life of the loan.

Additional considerations for determining the adequacy of existing third-party relationships should include, but not be limited to, reviewing standard flood hazard determination processes both at origination and throughout the life of the loan, map changes, 45-day notifications, force-placed insurance processes, including placement, cancellation and refund monitoring.

Due diligence should be performed on an ongoing basis to determine adherence with contractual expectations of the relationship and to identify any gaps that require additional service level agreements (SLAs) or remediation to realign with the lender's requirements.

Moving on to slide 31.

Slide 31: Resources

This slide includes references to help you comply with the flood insurance regulations.

- As we've mentioned throughout the presentation, the interagency Q&A's are a great resource and provide guidance to assist lenders in their responsibilities under federal flood insurance law.

- We've also included links to some of the CCO articles and Outlook Live webinars that cover flood insurance compliance. The links take you to the articles and the archived webinars, and they are available at www.consumercomplianceoutlook.org.

So that concludes our prepared remarks. I'm going to turn it back over to Jean to address some questions.

Jean Roark – Facilitator:

Thanks so much, Meg.

I want to go ahead and ask a couple of questions. I know that we are hitting time, but the questions are too good to leave. Here's our first question.

If during a MIRE event, a residential condo that is insured through an RCBAP policy is determined to be underinsured by \$40,000. Is the bank required to force place the difference and escrow these flood insurance premiums?

Chrissy Sager – Federal Reserve Bank of Kansas City

Great. Thanks Jean. I can take that one.

For this question, I'm going to assume that the loan is already on the bank's books, since the question refers to force placing insurance. If this is the case, the bank would want to ensure there is adequate flood insurance in place, so force placing the amount the unit is underinsured would be appropriate.

And then as it relates to the question of having to create an escrow account, a similar scenario is addressed in Q&As [Escrow Loan Exceptions 2](#) and [Escrow Loan Exceptions 3](#), which clarify that escrow would generally not apply if the condo association provides an adequate policy, since the flood insurance is paid by the condo association as a common expense.

However, if the RCBAP policy is inadequate, premiums for a supplemental policy such as a force placed policy would need to be escrowed provided the lender or the loan did not qualify for any other exception from the regulations' escrow requirement.

Jean Roark – Facilitator:

OK, thank you, Chrissy. I'm going to just ask one more question, then we'll close out.

We have a loan that requires flood insurance. Is it OK to advance the funds to pay for the flood policy at the closing table through an escrow account that is set up at the time of origination?

Colin Constandse – Federal Reserve Bank of New York:

I'll take that one. This appears to be acceptable. The regulation is only concerned with whether there is a policy in place at the time of loan closing and not how it's funded.

[Q&A Applicability 15](#) notes that the application and premium payment for the NFIP flood insurance must be provided at or prior to the closing date, so the lender would want to ensure the application includes an effective date as of the closing date and that the premiums are being paid through escrow are for a policy for the amount of flood insurance required.

Jean Roark – Facilitator:

All right. Thanks, Colin, and with that, I'd like to thank our presenters, and we'll go ahead and switch to our survey slide and close us out here. We're trying something new for this event. On this last slide, we included the survey link as well as a QR code where you can access the post-event survey. Please take just a moment to fill it out. We do read every single response and strive to make our sessions better based on your feedback. As a heads up, we wanted to point out that we do use your suggestions as well for future topics, both in our consideration of future Outlook Live events and also in future CCO publications, so we wanted to put in a plug for that survey question. You will also receive an e-mail with the survey, but you only need to fill it out once.

As a quick reminder, be sure to check our website www.consumercomplianceoutlook.org for information on upcoming sessions.

Thank you so much for joining us today. This concludes today's Outlook Live webinar. Enjoy the rest of your day.

[Event Concluded]