



FLOOD Training

Flood Training by Brad Bullock CRCM, First National Bank of Midland This tool can be found in the Banker Tools section of BankersOnline.com. www.bankersonline.com

Why should we care?

- **Flooding is a natural disaster that affects everyone and everything in its path**
- **Regulators are serious about enforcing flood requirements**
- **Failure to adhere to regulations not only opens the bank to Civil Money Penalties (CMP) but, through failure to notify the customer that the property is in a flood hazard area, the bank likely becomes the insurer on the property should a flood occur**

“MIRE”

- Are you **M**aking, **I**ncreasing, **R**enewing, or **E**xtending a loan?

Collateral

- Is the loan secured by improved real property or an affixed mobile home?
- Improved real property means property with one or more buildings. Building is defined as a walled and roofed structure (even while in the course of construction, alteration, or repair.)

Flood Determination

- Determine if:
 - A. the property is in a flood zone;
 - B. the property is in a community that participates in the National Flood Insurance Program (NFIP)
- Complete the Standard Flood Hazard Determination (SFHD) form

Special Flood Hazard Area (SFHA)

- Definition: “an area on a flood map that has a one percent chance of being flooded in any given year (100-year floodplain)”. Over a 30 year period, there is at least a 26% chance that this area will be flooded

SFHD

- If the property is not in a special flood hazard area (SFHA), simply retain the form in file and take no further action.

| | | | | |
|--|--|--|---|----------------|
| FEDERAL EMERGENCY MANAGEMENT AGENCY STANDARD FLOOD HAZARD DETERMINATION | | See The Attached <i>Instructions</i> | O.M.B. No. 3067-0264 <i>Expires October 31, 2005</i> | |
| SECTION I - LOAN INFORMATION | | | | |
| 5. AMOUNT OF FLOOD INSURANCE REQUIRED | | | | |
| SECTION II | | | | |
| A. NATIONAL FLOOD INSURANCE PROGRAM (NFIP) COMMUNITY JURISDICTION | | | | |
| 1. NFIP Community Name | 2. County (ies) | 3. State | 4. NFIP Community Number | |
| MIDLAND, CTY | Midland | TX | 48 04 77 | |
| B. NATIONAL FLOOD INSURANCE PROGRAM (NFIP) DATA AFFECTING BUILDING/MOBILE HOME | | | | |
| 1. NFIP Map Number or Community Panel Number (Community name, if not the same as "A") | 2. NFIP Map Panel Effective/Revised Date | 3. LOMA/LOMR <input type="checkbox"/> Yes Date | 4. Flood Zone Elev. | 5. No NFIP Map |
| 480477 0067 E | 12/06/1999 | | X | |
| C. FEDERAL FLOOD INSURANCE AVAILABILITY <i>(Check all that apply)</i> | | | | |
| 1. <input checked="" type="checkbox"/> Federal Flood Insurance is available <i>(community participates in nfip)</i> . <input checked="" type="checkbox"/> Regular Program <input type="checkbox"/> Emergency Program of NFIP | | | | |
| 2. <input type="checkbox"/> Federal Flood Insurance is NOT available because community is not participating in the NFIP. | | | | |
| 3. <input type="checkbox"/> Building/Mobile Home is in a Coastal Barrier Resource Area (CBRA) or Otherwise Protected Area (OPA), Federal Flood insurance may not be available. CBRA/OPA designation date: _____ | | | | |
| D. DETERMINATION | | | | |
| IS BUILDING/MOBILE HOME IN SPECIAL FLOOD HAZARD AREA (ZONES CONTAINING THE LETTERS "A" OR "V")? | | | | |
| <input type="checkbox"/> YES <input checked="" type="checkbox"/> NO | | | | |
| <small>If yes, flood insurance is required by the Flood Disaster Protection Act of 1973. If no, flood insurance is not required by the Flood Disaster Protection Act of 1973.</small> | | | | |
| E. COMMENTS <i>(Optional)</i> | | | | |
| Reference#: | | | | |
| E1. ASSIGNMENT <i>(If selling loan off, please, complete this section and fax to NFR. This will transfer this determination to the company filled in below.)</i> | | | | |
| Company: _____ | | Department: _____ | | Contact: _____ |
| Address: _____ | | City, State, Zip: _____ | | Phone: _____ |
| CERTIFY TO: | | TYPE OF COVERAGE: Life of Loan | | RUSH: |
| HMDA INFO: ST: | CO: | SMSA: | CT: | |
| <small>This determination is based on examining the NFIP map, any Federal Emergency Management Agency revisions, and any other information needed to locate the building/mobile home on the NFIP map.</small> | | | | |
| F. PREPARER'S INFORMATION | | | | |

FEMA Form 81-93, OCT 02

SFHD

- If the property is in a special flood hazard area and it is also in a participating community (NFIP), continue...

| FEDERAL EMERGENCY MANAGEMENT AGENCY STANDARD FLOOD HAZARD DETERMINATION | | See The Attached Instructions | O.M.B. No. 3067-0264 Expires October 31, 2001 | |
|--|--|--------------------------------------|--|----------------|
| SECTION I - LOAN INFORMATION | | | | |
| 5. AMOUNT OF FLOOD INSURANCE REQUIRED | | | | |
| SECTION II | | | | |
| A. NATIONAL FLOOD INSURANCE PROGRAM (NFIP) COMMUNITY JURISDICTION | | | | |
| 1. NFIP Community Name | 2. County (ies) | 3. State | 4. NFIP Community Number | |
| ODESSA, CTY | Ector | TX | 480206 | |
| B. NATIONAL FLOOD INSURANCE PROGRAM (NFIP) DATA AFFECTING BUILDING/MOBILE HOME | | | | |
| 1. NFIP Map Number or Community Panel Number (Community name, if not the same as "A") | 2. NFIP Map Panel Effective/Revised Date | 3. LOMA/LOMR | 4. Flood Zone | 5. No NFIP Map |
| 480206 0170 D | 10/20/1998 | <input type="checkbox"/> Yes Date | AE Elev. 2914 | |
| C. FEDERAL FLOOD INSURANCE AVAILABILITY (Check all that apply) | | | | |
| 1. <input checked="" type="checkbox"/> Federal Flood insurance is available (community participates in nfip). <input checked="" type="checkbox"/> Regular Program <input type="checkbox"/> Emergency Program of NFIP | | | | |
| 2. <input type="checkbox"/> Federal Flood insurance is NOT available because community is not participating in the NFIP. | | | | |
| 3. <input type="checkbox"/> Building/Mobile Home is in a Coastal Barrier Resource Area (CBRA) or Otherwise Protected Area (OPA), Federal Flood Insurance may not be available. CBRA/OPA designation date: _____ | | | | |
| D. DETERMINATION | | | | |
| IS BUILDING/MOBILE HOME IN SPECIAL FLOOD HAZARD AREA (ZONES CONTAINING THE LETTERS "A" OR "V")? <input checked="" type="checkbox"/> YES <input type="checkbox"/> NO | | | | |
| If yes, flood insurance is required by the Flood Disaster Protection Act of 1973. If no, flood insurance is not required by the Flood Disaster Protection Act of 1973. | | | | |
| E. COMMENTS (Optional) | | | | |
| Reference#: | | | | |
| E1. ASSIGNMENT (If selling loan off, please, complete this section and fax to NFR. This will transfer this determination to the company filled in below.) | | | | |
| Company: _____ | | Department: _____ | Contact: _____ | |
| Address: _____ | | City, State, Zip: _____ | Phone: _____ | |
| CERTIFY TO: | TYPE OF COVERAGE: Life of Loan | RUSH: Y | | |
| HMDA INFO: ST: _____ | CO: _____ | SMSA: _____ | CT: _____ | |
| This determination is based on examining the NFIP map, any Federal Emergency Management Agency revisions, and any other information needed to locate the building/mobile home on the NFIP map. | | | | |
| F. PREPARER'S INFORMATION | | | | |

FEMA Form 81-93, OCT 98

Exception

- If the loan amount is less than \$5,000 AND has a repayment term of less than one year, there is no requirement for the borrower to purchase flood insurance.

Flood Procedures

- If the loan is secured by improved real property, does not qualify for the exemption listed on the previous slide, is determined to be in a flood hazard zone in a participating community, then:
- **TIMING:** Bank should provide the borrower the notice of special flood hazards within a reasonable time before closing (est. 10 days). This notice must be done in writing
- **CONTENT:** The notice must inform the borrower that they must obtain flood insurance
- **COVERAGE:** The building or mobile home and any personal property securing the loan must be covered by flood insurance for the term of the loan
- **DEADLINE:** The insurance coverage must be in place prior to closing the loan* *When insurance coverage is unavailable, an application for flood insurance with a paid receipt will suffice provided the insurance policy is tracked and received in a timely manner*

NOTICE TO BORROWER IN A SPECIAL FLOOD HAZARD AREA

COPY

Borrower: [REDACTED]

Property Location: [REDACTED]

National Flood Insurance Program Community **ODESSA, CTY**

This Notice Date is as of: **08/23/2001**

The building or mobile home securing the loan for which you have applied is or will be located in an area with special flood hazards.

The area has been identified by the Director of the Federal Emergency Management Agency (FEMA) as a special flood hazard area using FEMA's Flood Insurance Rate Map or the Flood Hazard Boundary Map for the community provided above. This area has at least a one percent (1%) chance of a flood equal to or exceeding the base flood elevation (a 100-year flood) in any given year. During the life of a 30-year mortgage loan, the risk of a 100-year flood in a special flood hazard area is 26 percent (26%).

Federal law allows a lender and borrower jointly to request the Director of FEMA to review the determination of whether the property securing the loan is located in a special flood hazard area. If you would like to make such a request, please contact us for further information.

Participating Community

The community in which the property securing the loan is located participates in the National Flood Insurance Program (NFIP). Federal law will not allow us to make you the loan that you have applied for if you do not purchase flood insurance. The flood insurance must be maintained for the life of the loan. If you fail to purchase or renew flood insurance on the property, Federal law authorizes and requires us to purchase the flood insurance for you at your expense.

- Flood insurance coverage under the NFIP may be purchased through an insurance agent who will obtain the policy either directly through the NFIP or through an insurance company that participates in the NFIP. Flood insurance also may be available from private insurers that do not participate in the NFIP.
- At a minimum, flood insurance purchased must cover the lesser of:
 - (1) the outstanding principal balance of the loan; or
 - (2) the maximum amount of coverage allowed for the type of property under the NFIP.
 Flood insurance coverage under the NFIP is limited to the overall value of the property securing the loan minus the value of the land on which the property is located.
- Federal disaster relief assistance (usually in the form of a low-interest loan) may be available for damages incurred in excess of your flood insurance if your community's participation in the NFIP is in accordance with NFIP requirements.

Non-Participating Community

Flood insurance coverage under the NFIP is not available for the property securing the loan because the community in which the property is located does not participate in the NFIP. In addition, if the non-participating community has been identified for at least one year as containing a special flood hazard area, properties located in the community will not be eligible for Federal disaster relief assistance in the event of a Federally-declared flood disaster.

By signing below, you are acknowledging that you received this form at least ten(10) days before the closing of the transaction or at least by the date of any loan commitment made to you, if the period between Lender's commitment and the closing was less than ten(10) days. In addition, by signing below, you are agreeing to obtain Federal Flood Insurance for the full unpaid principal balance of the loan and any prior liens on the property securing the loan, up to the maximum policy limits set under the NFIP, or as otherwise required by Lender, and to maintain such insurance for the term of the loan. You also understand that flood insurance coverage may be purchased under the National Flood Insurance Program or from private insurers.

[REDACTED SIGNATURE]

Bank Official _____ Date _____ Borrower/Applicant _____ Date _____

Flood insurance coverage

- Must be maintained for the life of the loan in the lesser amount of the following:
- The maximum amount of NFIP flood insurance coverage available,
- The outstanding principal balance of the loan, or
- The value of the property minus the land

Lapse in Insurance

- The Bank must force place flood insurance on a loan that is in a SFHA and no longer has flood insurance on the expiration of 45 days from the notification to the customer.

Previous Flood Determinations

- If you are Making, Increasing, Renewing, or Extending an existing loan, you may rely on a previous flood determination for up to seven years if no map changes have occurred in that timeframe
- **CAUTION:** If you are relying on a previous determination, you must still provide the notice if the property is in a flood zone

Abundance of Caution

- You cannot waive flood insurance requirements even if there is enough value in the land to sufficiently collateralize the loan. If there is a structure on the property, it must be insured
- No “abundance of caution” exceptions

LOMAs and LOMRs

- A borrower, if they are claiming the structure itself is not in a flood zone because of whatever reason, may apply for a Letter of Map Agreement (LOMA) or Letter of Map Revision (LOMR) from FEMA. Until this letter is granted, the borrower would be required to provide flood insurance.

Escrow

- The bank does not have to escrow for flood insurance premiums UNLESS on a specific loan the bank is already escrowing. In that circumstance, the Bank is required to also escrow for flood insurance.
- This only applies to consumer loans

QUESTIONS

Does the bank have to perform a flood determination in the following situations?

Vacant Land Only

NO

QUESTIONS

Does the bank have to perform a flood determination in the following situations?

Vacant lot that will be built upon

YES

"Mandatory Purchase of Flood Insurance Guidelines" published by FEMA

"When a structure is to be built in an SFHA that, when completed will be a walled and roofed building that will be eligible for coverage, **flood insurance must be purchased to provide coverage during the construction period.** Therefore, when a development or interim loan is made to construct insurable improvements on land, flood insurance coverage must be purchased. **The only practical way of implementing the flood insurance coverage is to require the purchase of the policy at the time that the development loan is made, to become effective at the time the construction phase is commenced, and in an amount to meet the mandatory purchase requirement.**

"Mandatory Purchase of Flood Insurance Guidelines"

Material to be used on a building in the course of construction, but yet to be walled and roofed, is eligible for flood insurance, subject to certain underwriting restrictions. The NFIP, to the extent possible, conforms its practices with those of fire insurers by providing insurance coverage that begins during the period of time when construction is taking place.

For new construction in Regular Program communities, the Elevation Certificate and the premium will be based on an elevation figure derived from construction drawings. However, the policy will not be renewed until a new Elevation Certificate, based on actual construction, has been submitted. Coverage under the policy becomes available immediately when the construction starts, and is not delayed until the building has reached a roofed and walled condition."

QUESTIONS

Property located in a special flood hazard area

Flood insurance available in community

Loan is for the purpose of purchasing a dwelling and will be secured by the dwelling

Is flood insurance required?

YES

QUESTIONS

Property located in a special flood hazard area

Flood insurance is available in the community

Commercial loan is a line of credit for inventory secured by a commercial building

Is flood insurance required?

YES

QUESTIONS

Property located in a special flood hazard area

Flood insurance is available in the community

Commercial loan where borrower is creditworthy and a business rental property is taken only as abundance of caution

Is flood insurance required?

YES

QUESTIONS

Property located in a special flood hazard area

Flood insurance is NOT available in the community

Loan is for the purchase of a residential dwelling to be secured by the dwelling

Is flood insurance required?

DISCUSS

QUESTIONS

What should the bank do in this circumstance?

Flood insurance was required at the time the loan was made. However, the bank receives notification the flood insurance has not been renewed.

What should the bank do?

Notice should be given to customer, then force place insurance if customer fails to provide within 45 days

QUESTIONS

Would the bank have to require flood insurance in this situation?

A business loan is made for the purchase of a ranch. The ranch is primarily open grassland (200 acres) and a barn.

YES

Penalties for non-compliance

- \$385 per violation
- Up to \$125,000 per lender per calendar year
- Potential of negligence liability if lender does not comply with the act and the borrower's property is damaged or destroyed by flood.