

Diligence Advisory Group

Bank Flood Insurance Compliance

September 2018



Challenges & Observations

Over that past couple of years, the federal regulatory agencies have continued to place flood insurance compliance as a top priority in the audit process. The focus has been on making certain that the banks are enforcing correct flood coverage on ALL COLLATERAL located in a high risk flood zone(s). The flood insurance rules and compliance cover many business lines at most banks including residential real estate, home equity lines of credit, commercial loans, and agricultural loans. Many banks that have not met the flood requirements have resulted in civil money penalties and violations under the Flood Disaster Protection Act (FDPA) and the National Flood Insurance Act (NFIA).

At Cushman & Wakefield, our team of trained Flood Compliance professionals have worked on a number of large engagements assisting banking clients meet flood requirements within various departments. Our team has valuable expertise in what works and doesn't work to meet the compliance standards. ***Here are a few important points to consider and address prior to any audit of your flood department:***

Centralization

Is your flood compliance centralized or does each division handle their own compliance reviews?

- If it is not centralized, it will be next to impossible to establish and maintain consistent compliance standards.

Contents

Do your loan documents include boilerplate language that wraps in contents with your real estate collateral?

- If it does, you will need to make sure that all buildings that are in a high risk flood zone not only have adequate building flood coverage but contents as well.

Determinations

Are your flood determinations current?

- Your flood determinations have a shelf life and are subject to changes based on Mapping In or Out.

Calculations

Do you have a flood coverage confirmation template or calculator?

- The clear way to confirm that every building in high risk flood zone is subject to a consistent process and confirmation of coverage.

Private Policies

How do you handle Private Policy review?

- Private Policies have a number of terms that may or may not be in compliance with your flood coverage policy. They also have a tendency to negate coverage with high deductibles.

Complex Policies

Does your bank have separate or enhanced procedures for complex/larger/syndicated/participated commercial loans?

- Important to have a whole different level of review and compliance challenges.

Complex Collateral

Do commercial loans have an updated plan and list of all buildings that are in the collateral pool, flood determinations for each as well as replacement value for each structure that is in a high risk flood zone?

- You will be required to show this information as proof of which buildings and contents require coverage as well as validate that coverage in effect is sufficient.

Lender Placed

How is your Lender Placed Insurance (LPI) process structured? Are you in compliance with your LPI notices and timelines?

- Our experience has shown that this is usually the biggest area of compliance issues. It is riddled with very specific timelines and tracking that must be detailed, documented and controlled closely.

Monitoring

Do you monitor the map in/out of collateral that takes properties out of or in to high risk flood compliance?

- This is another critical area that regulators love to look at closely. A dedicated person(s) should be working on this to make sure buildings are correctly brought in or out of flood compliance.

Reporting

How is your reporting and monitoring controlled on flood compliance?

- You should have a system that is intergraded with your tickler platform and tracks all collateral that needs flood coverage, amount of coverage, expiration dates, effective dates, LPI notice dates and so on. Having a good reporting and monitoring program will be critical in keeping you in compliance.

For more information, please contact:



Joe Posavec

Managing Director
Special Opportunities Group, Diligence Advisory
Valuation & Advisory
+1 949 350 3370
joe.posavec@cushwake.com



Brian Murray

Senior Managing Director
Special Opportunities Group, Diligence Advisory
Valuation & Advisory
+1 201 663 3414
brian.murray@cushwake.com



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