Subject:	Flood Insurance Q&A
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Comments:

RE: Docket #OP-1311 Comments for Q&A Loans in Areas Having Special Flood Hazards; Interagency Questions and Answers Regarding Flood Insurance Following are comments The Park Avenue Bank has concerns with, or would like to see clarification on regarding the newly issued proposed Flood Insurance Guidelines. First, however, I would like to say that it is very much appreciated that the agencies are working hard to clarify some frequently confusing sections of the guidelines. Q&A #7, #10, #12 and #21 (for reference and not all inclusive) In some instances, the term “insurable value” is noted as “appraised value minus land” and in other sections it is defined as “100% of the full replacement cost value (RCV) including the supporting structure”. These two definitions are deceiving, as appraisal less land is generally market driven, while replacement cost is cost driven based on current building costs. The new guidelines seem to have replaced “appraisal minus land” with 100% RCV, for better clarification. It is felt that defining a cost basis makes sense, as market fluctuates so much based on location. However, in the section of the guidelines under “loss payments”, Pg 28, it states that only two types of property will pay based on full RCV – owner occupied 1-4 family residential and residential condos. It appears that even on condos, the borrower would have to occupy the unit at least 80% of the time. Everything else pays on “actual cost value”, or ACV. If this is the case, then using “RCV” as one of the “limits” of calculation is requiring more insurance than would be paid out in an actual loss and is in direct conflict with FEMA’s cautions of not over-insuring a property. It would be helpful to lenders if “insurable value” could be further defined to include ACV and RCV dependent on type of property. In addition, the sections listing the maximum limits should also address these different calculation methods, using whichever applies to a particular structure and furthermore…to a non-owner occupied (less than 80% of the year) residential property. Another related situation that often arises is the case of a run-down/dilapidated structure on a parcel of land. This seems not to fit the general criteria found within the guidelines that address “low value building on high value land”. In these cases, there is often no actual “insurable value” when you take into consideration replacement costs minus the depreciation factor. This type of rundown building would generally not stand up to running water. A common sense approach would tell you the buildings are past their useful life and are a non-issue, however if going strictly by the guidelines, you would have to calculate the cost to rebuild these structures even though they would not be rebuilt if destroyed by any means and an insurance company would not/could not pay out on the RCV upon loss. We would like to see this further clarified within the Q&A’s to specifically take this situation into consideration as to how a lender should handle this type structure. Examples that we see on a regular basis are generally on agricultural or commercial-type land. They might consist of 4x4 posts, walled with plywood and roofed with aluminum. They might be run-in sheds for livestock or tractor/equipment shelter. Often times, the roof and walls are partially gone/deteriorated. The insurable value generally presents no problem on a building in good condition; the problem comes in when it’s a very small building in very bad condition. (It’s possible that further clarification of RCV vs ACV may remedy this situation all together). Perhaps this situation could be additionally covered under Question #15 or perhaps there could be a category for uninsurable property types/condition. Question 21. We’re not sure why question 21 specifically discusses requirements for agricultural buildings. Multi-buildings on one plot are also commonly seen within commercial loan transactions and even residential transactions. It would be helpful not to isolate this information into one type of category. Question 31. The answer to this question alludes to the fact that a determination is required when “application” is made for a loan. General business practices calls for ordering a determination when a lending institution is reasonably certain it will “make, increase, etc” a loan. This could be misinterpreted and cost the bank or the borrower unnecessary expense. Question 33. The way this answer is worded, it appears that it only addresses the making of a home equity loan. It might be better to acknowledge any subordinate lien made regarding improved real estate. It should also not allude to residential property only. Question 34. It would be helpful to have a bit more detail regarding this section. One part of the confusion we see comes into play with the language "unless the building or mobile home AND any personal property securing such loan". Please elaborate on whether a simple Deed to Secure Debt which by default would also secure some contents/fixtures will result in the need for content coverage or whether a separate designated filing, such as a UCC would need to be involved in order to kick in the content requirement. We believe it would require the latter. The second point of confusion comes about when you have a building and contents as security. Lets say you have the following: $225,000 insurable value of building (whether to use RCV or ACV is dependent on other results of previous questions regarding type of property and loss payment calculations) $75,000 – value of contents $500,000 maximum building $500,000 maximum contents. $240,000 loan amount Should this be handled as two separate issues requiring $225,000 on the building and $75,000 on the contents, or should it be calculated like a multi-building on one property would be handled and allocated in some manner up to the loan amount? More clarification on these issues would be very useful. Thank you again for the opportunity to comment on such an important tool. Sincerely, Suzy S. Hall VP-Compliance The Park Avenue Bank Valdosta, Georgia

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