Subject:	Flood Insurance Q&A

Date:	May 19, 2008
Proposal:	Proposed Revisions to Interagency Questions and Answers Regarding Flood Insurance
Document ID:	OP-1311
Document Version:	1
Release Date:	03/21/2008
Name:	Debbie K Reuter
Affiliation:	Heritage Bank of Commerce
Category of Affiliation:	Commercial
Address:	150 Almaden Blvd.
City:	San Jose
State:	CA
Country:	UNITED STATES
Zip:	95113
PostalCode:	

Comments:

RE: Docket #OP-1311 Thank you for the opportunity to comment on the recently issued proposed revisions to the 1997 Interagency Questions and Answers (Q&A's) Regarding Flood Insurance. Heritage Bank of Commerce is a California state chartered bank headquartered in San Jose, California, and has eleven full service branches located throughout the San Francisco Bay Area. As of March 31, 2008, the Bank's assets totaled $1,414,727. Flood compliance is a high priority at Heritage Bank of Commerce and we devote substantial resources to the multi-faceted and complex requirements of complying with this regulation. We appreciate that the agencies are working to clarify some very confusing aspects of the flood regulations. Nonetheless, outlined below are some comments regarding the recently published proposed Q&A's. Q&A #7, #10, #12 (for reference and not all inclusive) The term "insurable value" is a key term referenced throughout the proposed Q&A's. Question #7 attempts to define "insurable value," as the "overall value of the property securing the designated loan minus the value of the land on which the property is located." However, this only leads to more confusion and questions because the term "overall value" remains undefined. We believe it is critical that the term "overall value" is clearly defined, as it impacts the calculation of the proper amount of flood insurance coverage required. As stated in the Q&A's, we agree that it is very important to calculate the correct insurable value of the property otherwise the lender might inadvertently require the borrower to purchase too much or too little flood insurance coverage. Page 27 of FEMA's Mandatory Purchase of Flood Insurance Guidelines (9/07) indicates that when calculating coverage, the "insurable value" of a structure equates to 100% replacement cost value (RCV). Both the FEMA Guidelines and the proposed Q&A's caution lenders against creating a situation where the insured may be paying for coverage that exceeds the amount the NFIP will pay in the event of a loss. Page 28 of the FEMA Guidelines makes it clear that in the event of a loss on residential property, settlement will be made based on the replacement cost basis only if the insured meets the defined requirements for primary residency, and for a residential condominium, in accordance with the RCBAP loss settlement provisions. FEMA Guidelines go on to indicate that in the event of a loss, the General Property Form for non residential risks limits recovery to actual cash value (i.e. the cost to repair or replace an insured item of property at the time of loss, less the value of its physical depreciation). FEMA Guidelines outline that the Dwelling Form for residential risks pay on the actual cash value, which again involves a deduction for depreciation on secondary residences. Insuring non residential and secondary residences at the RCV level would result in forcing the insured to pay for more flood insurance coverage than the NFIP would pay out in the event of a loss. Without clear guidance from the regulatory agencies, lenders are forced to rely on the ambiguities contained in the FEMA Guidelines regarding this very important aspect of ensuring flood compliance. We request that the regulatory agencies clarify "insurable value" is not a synonym for RCV and that lenders are not required to use RCV when calculating the proper amount of flood insurance coverage for secondary residences and non residential structures and property. Q&A #57 This Q&A makes reference to when a policy expires, and the borrower has failed to renew coverage, gap or blanket coverage may be adequate protection for the lender for the 15 day gap in coverage between the end of the 30 day grace period after the NFIP policy expiration and the end of the 45 day force placement period. We understand that at least one of the regulatory agencies has taken the position that the 45 day notice from the lender to the borrower cannot precede the expiration date of the existing flood insurance policy. We would appreciate clarification that the lender can initiate the 45 day notice prior to expiration of an existing policy so that there is no 15 day gap period where a lender is un-insured thereby creating no need for a lender to utilize a gap or blanket insurance policy. Thank you for your review and consideration of these comments. If you have any questions about this comment letter, please do not hesitate to contact me for additional information. Debbie Reuter Senior Vice President Heritage Bank of Commerce 150 Almaden Blvd. San Jose, CA 95113 408-494-4542 debbie.reuter@herbank.com