Evans, Sandra E

From: Sewell, Dale L. [DSewell@FDIC.gov]
Sent: Tuesday, August 05, 2003 12:41 PM
To: 'regs.comments@federalreserve.gov'; Comments; 'regs.comments@occ.treas.gov'; 'regs.comments@ots.treas.gov'
Subject: EGRPRA

ʳhe Flood Insurance regulation (FDIC Part 339) imposes an unnecessary burden on banks and consumers as follows:

ᵓart 339.3 *Requirement to purchase flood insurance where available* requires the amount of flood insurance purchased to be '...at least equal to the lesser of the outstanding principal balance of the designated loan or the maximum limit of coverage ɜvailable for the particular type of property under the Act. Flood insurance coverage under the Act is limited to the overall value of :he property securing the designated loan minus the value of the land on which the property is located."

The logical formula for calculating the amount of insurance required should be the amount of the loan minus the value of the land.

The following example from an actual examination best demonstrates the problem:

Amount of loan: $290,000

Overall value of property: $750,000

Value of land: $500,000

Insurance coverage: $200,000

Per the regulation, the amount of insurance required is $250,000 ($750,000 - $500,000). The collateral was underinsured by $50,000 ($250,000 - $200,000).

But what if a 100-year flood occurred and destroyed the structure? The loan is still secured by the value of the land of $500,000. Therefore, the bank is not at risk because the value of the land exceeds the value of the note by $210,000 ($500,000 - $290,000).

Never the less, the examiner cited the bank for not sufficiently insuring the collateral and required the bank to force the consumer to increase his insurance coverage. If the bank had more than one loan in this situation, it could have resulted in a civil money penalty situation.

Thank you.