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Regulation Comments
Chief Counsel's Office
Office of Thrift Supervision
1700 G Street, NW
Washington, DC 20552
Attention: OTS-2008-001

On March 21, 2008, the Federal Regulators jointly issued proposed revisions to the 1997 FFIEC "Interagency Questions and Answers Regarding Flood Insurance". In particular, AnchorBank has concerns regarding the answer to Question 57 concerning GAP insurance policies and the answers to Questions 64 and 65 related to flood zone discrepancies.

Answer 57 – GAP Insurance Policies

GAP or blanket type insurance can be an adequate substitute for NFIP insurance. The Answer states the GAP or blanket type insurance only protects the lender's interest rather than the borrower's interest. But, in allowing minimum coverage equal to the loan balance, the Flood Disaster Protection Act of 1973 appears to specifically focus on protecting the lender's interest. If the borrower's interest was of paramount importance, NFIP insurance requirements would require full protection of the insurable value in all instances. Furthermore, GAP and blanket type insurance can provide banks with a cost effective alternative for assuring adequate insurance coverage.

Answers 64 and 65 – Flood Zone Discrepancies

Any requirement for banks to identify and resolve discrepancies between the flood hazard zone designation form and the flood insurance policy is an undue regulatory burden.

Banks should not have to bear the additional financial penalty of assuring that the insurance agent selected the proper flood hazard zone. Banks are already required to expend significant staff time in confirming that flood insurance has been placed, maintained for the appropriate amount, and not been allowed to lapse. An additional requirement related to flood zone discrepancy identification and resolution will only increase bank expenses incurred for extending loans on properties in flood hazard zones. The increase in expenses will either result in borrowers paying higher loan interest and fees or banks deciding that extensions of credit secured by property in flood hazard areas are not worth the regulatory risks.



Banks have no control over the method an insurance agent may use in identifying applicable flood zones for insurance determinations. In some instances, insurance companies may engage parties or service providers which reasonably differ with the bank's system in interpreting flood zone maps. Alternatively, incompetence or dishonesty may be the cause of the differences. Therefore, banks should not be expected to be the arbitrator of the quality of the resources employed by the insurance company or the judge of their competence or integrity.

Under 44 CFR 65.17, the 45 day time frame for FEMA submissions may be impractical. Most borrowers do not present insurance information until the loan closing. The closing may occur more than 45 days after the bank provided the notice of flood hazard determination. As a result, the 45 day window may not be available for a large number of borrowers. Additionally, submissions can not be made if more than 45 days subsequent to the delivery of the notice of flood hazard determination the insurance is re-underwritten for a flood zone which differs from the bank's determination.

Finally, the answers are silent on how banks should rectify differences when the borrower has already obtained insurance which indicates the coverage is for property located in a low- to moderate- risk flood zone while the bank's determination indisputably places the property in a higher risk flood zone. Under these circumstances, the amount of insurance will be appropriate but the borrower did not pay premiums commensurate with the risk. If the borrower is uncooperative, should the bank force place insurance for the full premium cost related to the relevant flood zone? Is there an option of force placing the insurance premium differential? Would a private insurance company provide such forced place coverage?

Best regards,



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