From: "Todd Bowman" <cbcllc@pie.midco.net> on 05/16/2008 10:40:04 PM

Subject: Flood Insurance Q&A

To: Ms. Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System.

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Ms. Johnson,

I am a compliance consultant, and I am writing this comment letter on behalf of my clients regarding the proposed Q&As to Flood Insurance. I currently consult for Five Points Bank, Grand Island, NE, and Five Points Bank, Hastings, NE. I was also a FDIC compliance examiner for 12 years out of the Grand Island, NE field office. The following are the areas of the Q&As that I think need clarification.

Question/Answer #7, #10, #12, etc.

As a former regulator, I rely on definitions to determine regulation requirements. The term "**insurable value**" is an important term referenced throughout the proposed questions and answers. Question seven attempts to define "insurable value;" however, the definition provided, ("*the overall value of the property securing the designated loan minus the value of the land on which the property is located* ,") only adds to the confusion because "overall value" is used in the definition but is also not defined. Please define the terms "overall value" and "insurable value".

The Mandatory Purchase of Flood Insurance Guidelines (MPFIG) indicates the term "insurable value" means "100% replacement cost value". While I understand the FAQs do not indicate RCV must be used, my discussions with FDIC and Federal Reserve field personnel leads me to believe this is going to be expected or the flood insurance amount should be "similar" to the amount of hazard insurance on the property. I've had examiners also state the amount should be "reasonable" when compared to hazard insurance amounts. The various examiner opinions and lack of specific definitions has caused a lot of confusion among bankers and examiners, and these terms need specific definitions if they are going to be referenced. Leaving things up to examiner judgment and subjectivity will only lead to more confusion.

Another big problem with using RCV in every instance is that there are only two types of structures that will ever receive a settlement using RCV at the time of a loss: principal residences that are fully insured and residential condominiums. All other structures will be settled using actual cash value at the time of a loss. To force lenders to require borrowers to purchase flood insurance up to the RCV will result in many instances in which the insurance pay out will never be realized at the time of a loss. This practice does not seem prudent, will be difficult for lenders to require, will cause lenders to suffer reputation risk and may be seen as an unfair and/or deceptive act or practice. The MPFIG even states that using replacement cost value (RCV) "*meets or exceeds the minimal compliance standards* " (page 27 of the FEMA Guidelines).

I've also had examiners state that at the next renewal of insurance, it is expected that we look at the hazard insurance amounts and increase the flood insurance coverage if it is lower than the hazard insurance amount. This again confuses the issue because insurance renewal is not the making, increasing, renewing, or extending (MIRE) a loan, which are statutory tripwires. It appears examiners are looking for us to review policies annually and increase the coverage as RCV increases. Please clarify your stance on this. I don't feel the insurance should be reviewed (other than to maintain existing coverage) until a MIRE happens.

Without clear guidance, regulators and bankers are forced to look to the FEMA Guidelines for assistance. Due to these facts, we ask there be a clarification made that lenders are NOT required to use RCV when calculating insurance coverage. Field examiners are very misinformed on this issue.

Question/Answer #33
The subordinate lien mentioned in this answer appears to be limited to home equity loans. This requirement applies to any subordinate lien secured by the improved real estate not just home equity loans. Please clarify that this answer applies to all subordinate lien loans.

Question/Answer #35
This question and answer merely states that content insurance is required in certain instances. Are we to consider the total amount of coverage (building + contents) or look at building and content coverage separately? For instance, consider the following scenario on a commercial building:

Loan Amount	$200,000
Building Value	$150,000
Content Value	$100,000
Maximum Insurance	$500,000 each (contents & building)

Must the lender obtain flood insurance for $150,000 on the building and $100,000 on the contents? If so, the total insurance in place on the loan would be $250,000. Is this required when the loan is only for $200,000? Can we apply the "multiple building" logic (see FAQ #11) and only insure the building and contents for a total of $200,000 as long as some insurance is allocated to each (for example, $150,000 to the building and $50,000 to the contents)? We encourage you to clarify exactly how much content insurance will be required to meet regulatory guidelines. Examples of calculating the proper content insurance would also be very beneficial.

Thank you, and I hope the regulatory agencies will amend the Q&As to assist banks in complying with the Flood Insurance regulations.

Todd Bowman