

OCC Approves Regulation on Flood Insurance

The Office of the Comptroller of the Currency (OCC) has approved a proposed rule under part 22 of its regulations that implements the National Flood Insurance Reform Act of 1994, enacted as title V of the Riegle Community Development and Regulatory Improvement Act.

The Act is intended to increase compliance with flood insurance requirements by financial institutions and to provide additional income to the National Flood Insurance Fund. The Act does not change the basic requirements for the purchase of flood insurance when a property is located in a special flood hazard area, nor does it modify the minimum amount of flood insurance required. The minimum continues to be the lesser of the amount of the outstanding principal balance of the loan or amounts set forth by law for specific types of collateral in specific areas.

Each of the financial regulatory agencies will be proposing amendments to their regulations to comply with new provisions of the Reform Act. The changes in part provide that:

A lending institution that requires the escrow of taxes, property insurance premiums, fees or other charges must require the escrow of flood insurance premiums as well.

Lenders can "force place" flood insurance on behalf of a borrower when a loan lacks adequate flood insurance coverage.

A regulator can impose civil money penalties on a lender that engages in a pattern or practice that violates flood insurance laws and regulations.

A regulator is required to assess compliance with flood insurance laws and regulations when it examines a financial institution.

The proposal is designed to comply with the new requirements of the Act while keeping regulatory burden to a minimum. Accordingly, the proposal does not contain any requirements in addition to those in the Act. For example, neither the Act nor the proposal requires that financial institutions conduct portfolio reviews of all existing loans to determine if flood insurance is adequate. Comment is requested, however, on whether policies should be developed that require these reviews for financial institutions with loan collateral that is heavily exposed to risk from floods. Comment is particularly sought on methods now in use by these institutions and the likely cost to these institutions of mandatory reviews of loan portfolios for flood insurance coverage.

The proposed rule will be published in the Federal Register as a joint agency regulation by the OCC, the Federal Reserve Board, the Federal Deposit Insurance Corporation, the Office of

Thrift Supervision, the Farm Credit Administration and the National Credit Union Administration. The agencies also intend to issue the final rule jointly, so that all of the financial institutions they supervise will be subject to the same rules.

The public comment period is for 60 days from the date of publication in the Federal Register.

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