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OCC Adopts Flood Insurance Regulation

WASHINGTON, D.C. -- The Office of the Comptroller of the Currency (OCC) has adopted a final rule revising Part 22 of its regulations. Part 22 implements the National Flood Insurance Reform Act of 1994, which was enacted as title V of the Riegle Community Development and Regulatory Improvement Act. The final rule appears in today's edition of the Federal Register. The OCC is issuing its flood insurance rule jointly with the Federal Reserve Board, the Federal Deposit Insurance Corporation, the Office of Thrift Supervision, the Farm Credit Administration and the National Credit Union Administration. All six agencies will issue uniform rules implementing the statutory flood insurance provisions; thus all of the financial institutions they supervise will be subject to the new requirements.

The Reform Act is intended to increase compliance with flood insurance requirements by financial institutions and to provide additional income to the National Flood Insurance Fund. Consistent with the Reform Act, the final rule does not change the basic requirements for the purchase of flood insurance when a property used as collateral for a loan is located in a special flood hazard area in a community that participates in the National Flood Insurance Program, 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 the minimum amount available under the National Flood Insurance Program.

The final rule also provides that:

- A lending institution that requires the escrow of taxes, property insurance premiums, fees or other charges in connection with loans on improved residential property must require the escrow of flood insurance premiums as well.
- Lenders must "force place" flood insurance on behalf of a borrower when a loan lacks adequate flood insurance coverage.
- Lenders are not required to conduct continuous monitoring or periodic reviews of their loan portfolios to determine the current status of flood insurance coverage.
- Institutions may charge a fee for determining whether a property securing a loan lies in a flood zone, and may charge a fee to monitor the flood status of the property for the life of the loan.
- Institutions purchasing a loan will not be required to make a flood-hazard determination.
- 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.
- Loan servicers are not subject to flood insurance requirements independent of the obligations of the regulated lender. Instead, the loan servicer's duties will depend upon its centralized arrangements with the regulated lender.

The final rule is designed to comply with the new requirements of the Act while keeping regulatory burden to a minimum. Accordingly, the rule does not contain any new requirements other than those in the Act. Lenders are, however, responsible for maintaining policies and procedures to ensure that their flood insurance provisions comport with safety and soundness and prudent banking principles.

The effective date for the final rule is October 1, 1996, except for portions of the rule pertaining to institutions regulated by the Farm Credit Administration, which has a planned effective date of October 4, 1996, and the National Credit Union Administration, which has a planned effective date of November 1, 1996.

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The OCC charters, regulates and examines America's approximately 2,800 national banks and 70 federal branches and agencies of foreign banks in the U.S., accounting for more than half of the nation's bank assets. Its mission is to ensure the safety and soundness of the national banking system.