

Multiple Structures: Regulations, FZD Processes & Challenges

Moderator:

Steve Murchison – CBCInnovis

Panelists:

Mike Hanson – LPS National Flood

Scott Giberson – CoreLogic Flood Services

Quantz Bruns-Kyler – Chase

Jeff Woodward - FEMA

Today's Discussion

- The NFDA and its role
- Lenders' Regulatory Responsibility
- How Lenders comply with requirements
- Flood Determinations for multi-structure / multi-zone properties



The NFDA

- The National Flood Determination Association (NFDA) is a non-profit organization comprised of private sector companies who offer flood zone determination services to lending institutions and other businesses.
- 28 active members represent more than 90% of all flood zone determinations performed nationwide.
- Administers the NFDA Certification Program which provides an opportunity for companies to be recognized for achieving an exemplary level of professionalism with a focus on accuracy.
- Promotes and supports the NFIP and its purpose and advocates for positive changes to the Flood Program.



NFDA Member Survey

- NFDA conducts an annual survey of its member companies to compile statistical data related to services provided.
- Flood Zone Determinations Completed
 - 2012 survey results*:
 - 18,257,332 flood determinations completed for lenders
 - 2,300,672 flood determinations completed for insurance
 - 329,969 flood determinations completed for others
- Customer Service
 - Average talk times
 - Call Volumes
 - Handled over 800,000 non-sales related phone calls in 2012 alone.
- A complete set of survey results can be found at nfda flood.com.

**based on the response of 9 NFDA member companies*



NFDA Member Survey

- Life of Loan
 - In 2012, **over 150 million** determinations were tracked for map changes.
 - There were 16,412 panels revised in 2012.
 - Determinations resulting in a status change:
 - OUT to IN SFHA: 222,179
 - IN to OUT of SFHA: 111,587
 - Determinations impacted by map revisions not resulting in a status change:
 - Remained IN SFHA 485,687
 - Remained OUT of SFHA 10,565,329

**based on the response of 9 NFDA member companies*



Flood Zone Determination Companies

- Provide flood zone determinations to federally regulated lenders for their *compliance purposes* including banks, mortgage companies, credit unions, brokers, and servicers.
- Track loans/determinations for revisions to the FIRMs and notify lenders and servicers of resulting changes that affect their insurance requirements: *“Life of Loan” service (“LOL”)*
- Provide flood data to insurance agents and insurance companies for policy rating, to appraisers, and to governmental agencies, among others.



Key Legislation

National Flood Insurance Act of 1968

- Established NFIP making federal flood insurance available to residents of participating communities

Flood Disaster Protection Act of 1973

- Mandated that lenders require flood insurance on loans secured by properties in SFHA.

National Flood Insurance Reform Act of 1994

- Tightened lender compliance, created SFHDF, added civil penalties & established lender placed insurance requirements.

Flood Insurance Reform & Modernization Act of 2012 (“Biggert-Waters Act”)

- Reauthorizes the NFIP until September 30, 2017.
- Increases civil monetary penalties against lenders from \$385 to \$2,000 per violation and removes the annual maximum per institution.
- Increases flood insurance limits for multi-family (>5 residences) residential buildings to \$500,000



Loans Secured by Properties with Multiple Buildings: Relevant Regulations

- **Flood Insurance Purchase Requirement (e.g. FDIC 12 CFR §339.3)**

“A bank shall not make, increase, extend, or renew any designated loan unless the building or mobile home and any personal property securing the loan is covered by flood insurance for the term of the loan.”

“The amount of flood insurance must be at least equal to the lesser of the outstanding principal balance of the designated loan or the maximum limit of coverage available for the particular type of property under the Act.”

“Flood insurance coverage under the Act is limited to the overall value of the property securing the designated loan minus the value of the land on which the property is located.”

Designated loan means a loan secured by a building or mobile home that is located or to be located in a special flood hazard area in which flood insurance is available under the Act



Loans Secured by Properties with Multiple Buildings: Relevant Regulations

- **Two Questions Need to be Answered**

Which building or buildings securing the loan are in the Special Flood Hazard Area?

How much flood insurance is required on the building or buildings in the Special Flood Hazard Area?



Loans Secured by Properties with Multiple Buildings: The Determination

- **Which building or buildings securing the loan are in the Special Flood Hazard Area?**
 - Schedule or listing of buildings may be attached or included, or separate determinations are required (Form 086-0-32)
 - Lender must make a determination as to which buildings of the improved real property securing the loan are in an SFHA and determine the amount of insurance required on each such building (FFIEC Q&A, #14, 25)
 - Where multiple buildings securing loan are in SFHA, does lender have sufficient insurance to meet minimum requirements? (FDIC, Flood Examination Manual, 2012)

FEDERAL EMERGENCY MANAGEMENT AGENCY STANDARD FLOOD HAZARD DETERMINATION		See The Attached Instructions	FEMA Form No. 086-0-32 Expires October 31, 2001
SECTION I - LOAN INFORMATION			
1. LENDER NAME AND ADDRESS		2. COLLATERAL (Building/Mobile Home/Personal Property) PROPERTY ADDRESS <small>(Legal Description may be attached)</small>	
3. LENDER ID. NO.	4. LOAN IDENTIFIER	5. AMOUNT OF FLOOD INSURANCE REQUIRED	
SECTION II			
A. NATIONAL FLOOD INSURANCE PROGRAM (NFIP) COMMUNITY JURISDICTION			
1. NFIP Community Name	2. County(ies)	3. State	4. NFIP Community Number
B. NATIONAL FLOOD INSURANCE PROGRAM (NFIP) DATA AFFECTING BUILDING/MOBILE HOME			
1. NFIP Map Number or Community Panel Number <small>(Community name, if not the same as "A")</small>	2. NFIP Map Panel Effective/Revised Date	3. LOMALOMR <input type="checkbox"/> YES <input type="checkbox"/> NO	4. Flood Zone Map
C. FEDERAL FLOOD INSURANCE AVAILABILITY (Check all that apply)			
1. <input type="checkbox"/> Federal Flood insurance is available (community participates in NFIP). <input type="checkbox"/> Regular Program <input type="checkbox"/> Emergency Program of NFIP			
2. <input type="checkbox"/> Federal Flood insurance is not available because community is not participating in the NFIP.			
3. <input type="checkbox"/> Building/Mobile Home is in a Coastal Barrier Resources Area (CBRA) or Otherwise Protected Area (OPA). Federal Flood insurance may not be available. CBRA/OPA designation date: _____			
D. DETERMINATION			
IS BUILDING/MOBILE HOME IN SPECIAL FLOOD HAZARD AREA (ZONES CONTAINING THE LETTERS "A" OR "V")? <input type="checkbox"/> YES <input type="checkbox"/> NO			
If yes, flood insurance is required by the Flood Disaster Protection Act of 1973. If no, flood insurance is not required by the Flood Disaster Protection Act of 1973.			
E. COMMENTS (Optional):			
This determination is based on examining the NFIP map, any Federal Emergency Management Agency revisions to it, and any other information needed to locate the building/mobile home on the NFIP map.			
F. PREPARER'S INFORMATION NAME, ADDRESS, TELEPHONE NUMBER (if other than Lender)			DATE OF DETERMINATION

FEMA Form 086-0-32, OCT 98 This form may be locally reproduced.

Loans Secured by Properties with Multiple Buildings: The Determination

- Which building or buildings securing the loan are in the Special Flood Hazard Area?
 - If detached structure is in SFHA and serves as part of security of loan then flood insurance will be required “unless the servicer determines that the principal structure represents sufficient security ... and releases the detached dwelling from the security.” (Fannie Mae Single Family Servicing Guide)
 - Lender may consider “carving out” buildings from security of loan but should exercise caution and analyze risks in doing so (FFIEC Q&A, #24)

FEDERAL EMERGENCY MANAGEMENT AGENCY STANDARD FLOOD HAZARD DETERMINATION		See The Attached Instructions	F.M.A. No. 5027-0204 Expires October 31, 2007
1. LENDER NAME AND ADDRESS		SECTION I - LOAN INFORMATION 2. COLLATERAL (Building/Mobile Home/Personal Property) PROPERTY ADDRESS <i>(Legal Description may be attached)</i>	
3. LENDER ID. NO.	4. LOAN IDENTIFIER	5. AMOUNT OF FLOOD INSURANCE REQUIRED	
SECTION II			
A. NATIONAL FLOOD INSURANCE PROGRAM (NFIP) COMMUNITY JURISDICTION			
1. NFIP Community Name	2. County(ies)	3. State	4. NFIP Community Number
B. NATIONAL FLOOD INSURANCE PROGRAM (NFIP) DATA AFFECTING BUILDING/MOBILE HOME			
1. NFIP Map Number or Community Panel Number <i>(Community name, if not the same as "A")</i>	2. NFIP Map Panel Effective/Revised Date	3. LOMALOMR <input type="checkbox"/> TH	4. Flood Zone Map
C. FEDERAL FLOOD INSURANCE AVAILABILITY <i>(Check all that apply)</i>			
1. <input type="checkbox"/> Federal Flood insurance is available (community participates in NFIP). <input type="checkbox"/> Regular Program <input type="checkbox"/> Emergency Program of NFIP			
2. <input type="checkbox"/> Federal Flood insurance is not available because community is not participating in the NFIP.			
3. <input type="checkbox"/> Building/Mobile Home is in a Coastal Barrier Resources Area (CBRA) or Otherwise Protected Area (OPA). Federal Flood insurance may not be available. CBRA/OPA designation date: _____			
D. DETERMINATION			
IS BUILDING/MOBILE HOME IN SPECIAL FLOOD HAZARD AREA (ZONES CONTAINING THE LETTERS "A" OR "V")? <input type="checkbox"/> YES <input type="checkbox"/> NO			
If yes, flood insurance is not required by the Flood Disaster Protection Act of 1973. If no, flood insurance is not required by the Flood Disaster Protection Act of 1973.			
E. COMMENTS <i>(Optional)</i>			
This determination is based on examining the NFIP map, any Federal Emergency Management Agency revisions to it, and any other information needed to locate the building/mobile home on the NFIP map.			
F. PREPARER'S INFORMATION NAME, ADDRESS, TELEPHONE NUMBER <i>(if other than Lender)</i>		DATE OF DETERMINATION	

FEMA Form 81-02, OCT 98 This form may be locally reproduced.



Loans Secured by Properties with Multiple Buildings: Amount of Insurance

“The lender must determine the amount of insurance required on each building and add these individual amounts together”

- To be compliant, the total amount of flood insurance must be (at least) the lesser of:
 - The outstanding principal balance of the loan(s); or
 - The maximum amount of insurance available under the NFIP, which is the lesser of:
 - **maximum limit available for the type of structures, or**
 - **the “insurable value” of the structures**
- Coverage for buildings is separate from the amount of recovery if the building is destroyed
- The total amount of flood insurance required can be allocated among buildings in varying amounts, but all buildings in an SFHA must have some coverage



Coverage Amount Requirements

- Two alternatives may become available when RCV would result in over-insuring of the building. Amount of insurance is determined by the lender and/or borrower:
 - **“Functional Building Cost”** The cost to replace a building with a lower-cost functional equivalent. Allows for the replacement of a building with less costly construction materials that are functionally equivalent to obsolete, antique, or custom construction materials
 - **“Demolition/Removal Cost”** The cost to demolish the remaining structure and remove the debris. This approach is suggested when the building would not be replaced if damaged or destroyed by flood

Coverage Amount - Examples

Example 1: Lender makes a loan in the amount of \$350,000 with the following structures listed on the appraisal for the property:

- Primary dwelling value - \$425,000
 - Detached guest house value - \$33,611
 - Barn value - \$24,000
 - Machine shed value - \$500
- What is total amount of flood insurance required?

Primary Dwelling	\$250,000
Detached Guest House	\$ 33,611
Barn	\$ 24,000
Machine shed	\$ 500
<u>Total Coverage</u>	<u>\$308,111</u>

\$308,111 in coverage is required to meet the minimum standard of the lesser of total lien(s) or insurable value, up to the maximum NFIP coverage



Coverage Amount - Examples

Example 2: Lender makes a loan in the amount of \$145,000 with the following structures listed on the appraisal for the property:

- Primary dwelling value - \$200,000
- Barn, Silo, Tool Shed – Combined value \$45,000

- To be compliant, the total amount of flood insurance required is \$145,000
- Some amount of coverage is required for each building. Minimum coverage may be established based upon alternate methods mentioned previously:
 - Square Footage
 - Functional Value
 - Split on a pro-rate basis based upon insurable value



Flood Determinations

- *Common:* Properties with multiple structures in the same flood zone = 1 flood certificate for loan
- *Exceptions:* Properties with multiple structures in **different** flood zones



Multi-Structure & Split-Zone Properties

- Typically identified after flood determination is complete - **property is in a SFHA & insurance is required**
- However, lender may provide information from appraisal or other source as to loan collateral and building identification
- Borrower doesn't think insurance should be required
 - Borrower built house to federal standards
 - Borrower has multiple structures on property
 - Barn • Shed • Boat house • Guest house • etc.



Multi-Structure & Split-Zone Properties

- Additional information is provided to determine:
 - where the specific structures are located on the property
 - what flood zone each structure is located in
- Multiple Flood Certificates example
 - House in zone X
 - Barn & shed in zone A – flood insurance required

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We encourage you to contact the NFDA with questions or concerns about flood determination industry practices or mapping issues that may arise.

Email: info@NFDAflood.com

Web: www.NFDAflood.com

Steve Murchison – steve.murchison@cbcinnovis.com

Mike Hanson – mike.hanson@lpsvcs.com

Scott Giberson – sgiberson@corelogic.com

Quantz Bruns-Kyler – quantz.brunsk-kyler@chase.com

Jeff Woodward – jeffrey.woodward@fema.dhs.gov

