Subject:	Flood Insurance Q&A
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Proposal:	Proposed Revisions to Interagency Questions and Answers Regarding Flood Insurance
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Comments:

I would like to briefly touch on Questions 7 and 64. Question 7 (II: Determining the Appropriate Amount of Flood Insurance): In the Section-by-Section Analysis the Agencies state “Proposed question 7 would introduce and define the insurance term, ‘insurable value,’ as it relates to the determination of the maximum limit of coverage available under the Act.” Though the proposed Q&A does a good job at providing examples, Question 7 could be enhanced to further clarify insurable value. It appears the Agencies desire to define insurable value as “the overall value of the property securing the designated loan minus the value of the land on which the property is located.” In my opinion this one-dimensional definition is inadequate on at least two counts. First, the definition fails to consider the different approaches to value available to a lender. For example, Fannie Mae and Freddie Mac no longer require that a Cost Approach be developed for a Uniform Residential Appraisal Report. For an owner-occupied dwelling, if a lender simply takes the estimate of value according to the Sales Comparison approach, and subtracts the land, the resulting “insurable value” is likely to be less than the replacement cost of the structure. Additionally, the “overall value” of an income-producing structure based on the income approach (less the land) may be substantially higher than the cost to replace the structure or the actual cash value (depreciated value) of the structure. Secondly, there appears to be a conflict when reconciling the proposed definition of insurable value to the Dwelling Form and the General Property Form. Specifically, the Loss Settlement provisions among the different insured property types are not uniform and do not neatly fit into the Agencies' proposed definition. The NFIP Dwelling Form's Loss Settlement provision will provide replacement cost of an owner-occupied single family dwelling, yet only actual cash value for a two-, three- or four-family dwelling. The NFIP General Property Form will only provide coverage up to actual cash value. In summary, I encourage the Agencies to take their lead from the wording of the Regulation itself: The amount of flood insurance required "must be 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." The proposed Q&A provides an excellent opportunity for the Agencies to finally and clearly define insurable value as it relates to the different property types and consistent with the Loss Settlement provisions of the various NFIP insurance policies. Question 64 (XV: Flood Zone Discrepancies) In the Section-by-Section Analysis the Agencies state "The question discusses the legitimate reasons such discrepancies may exist and describes how to resolve differences if there is no legitimate reason for them? Other than the "Grandfather Rule" question 64 does not proffer any other "legitimate reasons." Please provide additional legitimate reasons. For example, is a difference between the zone determination of the insurance company and the determination of the lending institution a "legitimate reason?"