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Subject: Reg H - Loans in Areas Having Special Flood Hazards

Comments:

Public Comments on Loans in Areas Having Special Flood Hazards:
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Comment:

In regard to pages 64522-64523 of the Federal Register Vol. 79, No. 210 and the Agencies request for comments on whether or how the Agencies should define residential property, we believe an exemption based on loan purpose will be too narrow and will not adequately address concerns for borrowers and lenders by excluding relatively low-value structures as is the stated purpose.

We are an agriculturally based community bank and often see Ag properties with pole barns, sheds, grain bins or any number of other low-value structures on the same piece of land as a home. As an example, assume an agricultural purpose loan secured by land with a residence and 5 out-buildings with the following insurable values:

Home - \$150,000
Pole Barn - \$2,000
Shed - \$1,000
Grain Bin 1 - \$4,000
Grain Bin 2 - \$3,000
Grain Bin 3 - \$3,000

If the out-buildings are not exempted, individual policies would be required for each structure. The minimum annual policy cost is approximately \$380 in our area, so insurance for the outbuildings would cost \$1,900 per year. When you factor in the \$1,000 minimum deductible for each policy, the total extent of recovery from an insurance payout comes to \$8,000. At this rate the borrower would pay \$7,600 in just 4 years, meaning it would have to flood every fourth year for them to receive a benefit. If it were to flood once every 10 years, the borrower will pay \$11,000 more than the max insurance claim. If it were to flood once in 30 years, they would pay \$49,000 more than the max claim. It has been explained to us that special flood hazard areas actually have a 25% chance of flooding over 30 a year period. How are we supposed to explain to the customer that a 25% chance of a \$8,000 loss is better than a 75% chance of a \$57,000 loss?

With this in mind, we feel a minimum insurable value would better address coverage requirements for low-value structures and eliminate much of potential safety and soundness issues created by a residential property definition alone.

When defining residential property please also consider the following questions;

Does the wording primary residential structure refer to the definition of Primary Residence by FEMA (a building that will be lived in by an insured or an insureds spouse for more than 50% of the year)?

Or does primary residential structure refer to the structure with the greatest appraised value located on the real property? If so guidance should be provided on properties that have residential structures such as; apartment buildings or condominiums which contain multiple residences, 1-4 family rentals which may be rented out as residences and mobile home parks which would have multiple residences.

Would a garage used solely for parking vehicles located on a separate lot but directly adjacent to a residential structure qualify for the exemption?