Board of Governors of the Federal Reserve System
Federal Deposit Insurance Corporation
Office of the Comptroller of the Currency
National Credit Union Administration
Farm Credit Administration

Interagency Statement on Increased Maximum Flood Insurance Coverage for Other Residential Buildings

Under Section 100204 of the Biggert-Waters Flood Insurance Reform Act of 2012, the maximum limit of building coverage available for non-condominium residential buildings designed for use for five or more families, classified as "Other Residential Buildings" by the National Flood Insurance Program (NFIP), has been increased from $250,000 per building to $500,000. The maximum contents coverage for all policies covering Other Residential Buildings will remain $100,000 per policy. The new coverage limits are available for new policies, policy renewals, or existing policies with change endorsements[1] effective on or after June 1, 2014.[2]

The Board of Governors of the Federal Reserve System, the Farm Credit Administration, the Federal Deposit Insurance Corporation, the National Credit Union Administration, and the Office of the Comptroller of the Currency (the Agencies) have issued flood insurance regulations requiring that, when a lender makes, increases, extends, or renews a loan secured by property located in a Special Flood Hazard Area (a "designated loan"), the property must be covered by flood insurance for the term of the loan.[3] The amount of insurance required is 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:
    - the maximum limit available for the particular type of structure; or
    - the "insurable value" of the structure.

Considering the Agencies' flood insurance coverage requirements, the increase in the maximum amount of flood insurance coverage available under the NFIP pursuant to the Biggert-Waters Act could affect the minimum amount of flood insurance required for both existing and future loans secured by Other Residential Buildings.

The Federal Emergency Management Agency (FEMA) has directed insurers that issue NFIP policies to provide all Other Residential policyholders with a letter informing them prior to June 1, 2014, of the new policy limits.[4] This letter is intended to notify building owners who may be affected by the increased limits. The Agencies understand that insurers may provide notification of the new policy limits to any lender named on the borrower's flood insurance policy at the

[1] An endorsement is a written document attached to an insurance policy that modifies the policy by changing the coverage afforded under the policy.
[2] FEMA Memorandum W-13070, http://nfipiservice.com/Stakeholder/FEMA2/w-13070_Full.pdf (Dec. 16, 2013), Attachment A, page 1.
[3] *See* 12 C.F.R. § 22.3 (Office of the Comptroller of the Currency); 12 C.F.R. § 208.25(c) (Federal Reserve Board); 12 C.F.R. § 339.3 (Federal Deposit Insurance Corporation); 12 C.F.R. § 614.4930 (Farm Credit Administration); 12 C.F.R. § 760.3 (National Credit Union Administration).
[4] FEMA Memorandum W-13070, Attachment A, page 1.

same time the policyholder is notified. Additionally, FEMA has instructed insurers to include a message on the Renewal Notice advising affected policyholders that higher limits are available. A policyholder may purchase increased coverage through a change endorsement on an existing policy as of May 1, 2014, to ensure that the increased coverage amount goes into effect as of June 1, 2014.[5]

If a financial institution or its servicer receives notification of the increased flood insurance limits available for an Other Residential Building securing a designated loan, the Agencies expect supervised institutions to take any steps necessary to determine whether the property will require increased flood insurance coverage. Although a lender is not required to perform an immediate full file search of its loan portfolio, for safety and soundness purposes a lender may want to review its loan portfolio to determine whether additional flood insurance coverage is required for certain properties in light of the availability of increased flood insurance coverage for Other Residential Buildings. The Agencies have explained previously in Interagency Questions and Answers Regarding Flood Insurance:

> Apart from the requirements mandated when a loan is made, increased, extended or renewed, a regulated lender need only review and take action on any part of its existing portfolio for safety and soundness purposes, or if it knows or has reason to know of the need for NFIP coverage. Regardless of the lack of such requirement in the Act and Regulation, however, sound risk management practices may lead a lender to conduct scheduled periodic reviews that track the need for flood insurance on a loan portfolio.[6]

If, as a result of the increase in the maximum limit of building coverage for Other Residential Buildings, the lender or its servicer makes a determination on or after June 1, 2014, that the building securing the designated loan is now covered by flood insurance in an amount less than required, it should take steps to ensure that the borrower obtains sufficient coverage. If an affected borrower has not provided evidence of the increased flood insurance, the lender or its servicer must notify the borrower that the borrower should obtain additional flood insurance at the borrower's expense for the remaining term of the loan. If the borrower fails to obtain sufficient coverage within 45 days after notification, the lender or its servicer must purchase coverage on the borrower's behalf. The lender or its servicer may charge the borrower for the cost of premiums and fees incurred in purchasing the insurance, including premiums and fees incurred for coverage beginning on the date on which flood insurance coverage did not provide a sufficient coverage amount.

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[5] *Ibid*.

[6] Interagency Questions and Answers Regarding Flood Insurance, 74 Fed. Reg. 35914, 35935 (July 21, 2009) (Question and Answer No. 7).