



**National Association
of Federal Credit Unions**
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December 1, 2011

Mary Rupp
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314

RE: RIN 3133-AD41: Comments on Flood Insurance Interagency Questions & Answers

On behalf of the National Association of Federal Credit Unions (NAFCU), the only trade association that exclusively represents the nation's federal credit unions, I am writing to provide NAFCU's comments on request for comment regarding proposed changes to the Interagency Questions and Answers Regarding Flood Insurance. The National Flood Insurance Program (NFIP) is of utmost importance to the housing market and NAFCU has long advocated for a long term extension of the program. Below are NAFCU's thoughts on proposed changes to the Interagency Questions and Answers Regarding Flood Insurance.

Question 60

NAFCU is generally supportive of proposed Question and Answer 60. Credit union lenders remain concerned about the prospect of loans during the 45 day notice period as well as the cost of providing insurance during that period. However, proposed Question and Answer 60, in conjunction with proposed Question and Answer 62, provide lenders with sufficient flexibility going forward to address this issue. While the proposed questions and answers are an improvement over the previous proposal, the strict application of the 45 day notice requirement still frustrates the purpose of the statute, which is to ensure that properties are insured for the life of the loan. NAFCU does understand the agencies are bound by the language of the statute in this regard; nonetheless, we would urge the agencies to consider addressing this issue as they work with Congress to reauthorize the program.

Question 62

Again, the proposed changes to question 62 are an improvement over the 2009 proposal. NAFCU appreciates that the agencies clarified that a lender can force-place insurance and charge the borrower accordingly, provided the loan documents accord the lender that right. In most cases, this should afford lenders sufficient opportunity to protect against loss. Nonetheless, the agencies' reasoning in this regard remains somewhat confusing. Adequate insurance is in the best interest of lenders and borrowers. That said, borrowers, in virtually all instances, will suffer a more devastating financial and personal loss if a flood occurs during a gap in coverage. Further, flood insurance is required for all homes located in a flood zone. Finally, one of the goals of the NFIP is to ensure uninterrupted flood insurance coverage. Yet, despite all that, the question and answer still requires the lender to bear the financial burden of purchasing coverage during the gap if the borrower fails to do so. The agencies' determination is made all the more confusing given that (1) lenders can force-place insurance after the 45 day period and (2) lenders will virtually always waive or refund the

premium for force-placed insurance if the borrower establishes that he or she had coverage during the notice period. Given the importance of continuous coverage, the fact that lenders can require insurance after the 45 day period and the opportunity for borrowers to recoup any costs, there seems little reason not to allow force-placement of insurance during the 45 day notice period. At the very least, this interpretation should only apply prospectively as it would be unfair to lenders if this new guidance had a retroactive effect on loan agreements signed years beforehand.

While the proposed changes are helpful in instances where lenders have reserved the right to place insurance during the notice period, the rules are still problematic in cases where there is no such contract provision. This is particularly troubling in cases where the flood zone maps have changed, something that the agencies note is occurring more frequently due to map modernization efforts. Lenders have considerably less reason to include a provision allowing the force-placement of insurance for mortgages secured by property that do not lie within a flood zone. Changing flood zones, however, will require insurance for new properties. This presents two problems. First, lenders are forced to pay the cost of insurance in instances where they did not reserve the right to force-place insurance on properties when insurance, at the time the mortgage was written, was not required.

Second, there are practical, logistical problems in communicating changes in flood zone maps to all interested parties in a timely fashion. Consequently, it is not uncommon for properties in newly designated flood zones to be temporarily uninsured. The NFIP might be able to best address this issue by offering temporary coverage for some period of time after an area is designated as lying in a flood zone. For example, the NFIP could offer temporary insurance for 60 days in order to provide insurers, lenders and borrowers sufficient time to ensure adequate coverage.

Again, NAFCU understands the agency is constrained to some extent by the statute. Nonetheless, the cost of insurance and the consequences of uninsured properties will continue to be an issue of concern, particularly as flood maps continue to change. Given the clear advantages of ensuring continuous coverage and the benefits that accrue to the borrower, NAFCU encourages the agencies to continue looking for ways to ensure that coverage does not lapse and that lenders are not forced to bear a disproportionate share of the cost of coverage.

NAFCU appreciates the opportunity to comment on the proposed changes. The proposed questions and answers are much improved over the 2009 proposal. Nonetheless, NAFCU is hopeful that more can be done to eliminate gaps in coverage, the costs of which must be borne by the lender. Should you have any questions or require additional information please call me or Carrie Hunt, NAFCU's General Counsel and Vice President of Regulatory Affairs at (703) 842-2234.

Sincerely,

A handwritten signature in black ink that reads "Dillon Shea". The signature is written in a cursive, slightly slanted style.

Dillon Shea
Regulatory Affairs Counsel