



Office of the President

December 17, 2014

Mr. Gerard Poliquin
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

Re: Loans in Areas Having Special Flood Hazards
RIN 3133-AE40

Dear Mr. Poliquin:

Navy Federal Credit Union (“Navy Federal”) appreciates the opportunity to provide the following comments on the proposed rulemaking issued by the National Credit Union Administration (“NCUA”) and four other agencies to amend their respective regulations regarding loans in areas having special flood hazards and to implement certain provisions of the Homeowner Flood Insurance Affordability Act of 2014 (“HFIAA”).

By way of background, Navy Federal is the nation’s largest natural person credit union with approximately \$62.5 billion in assets, over 5.2 million members, 257 branches, and a workforce of about 12,000 employees worldwide. We are committed to serving the needs and improving the financial condition of our members.

Navy Federal generally supports the NCUA proposal to incorporate HFIAA’s provisions exempting certain detached structures on residential property from the mandatory flood insurance purchase requirement and to implement the statute’s provisions requiring the escrow of flood insurance premiums and fees effective on January 1, 2016. Our support for the proposed rule also includes the additional exceptions from the escrow requirement as amended by HFIAA; the borrower option to escrow flood insurance premiums and fees for loans that are outstanding prior to January 1, 2016; and the revised and new notice forms and clauses to our members.

Based on our review of the proposed rule and our experience with the National Flood Insurance Program (“NFIP”), Navy Federal believes the proposed rule can be improved with additional clarification in order to protect our members’ collateral and to facilitate credit unions’ full support and participation in the NFIP as amended by HFIAA and the Biggert-Waters Flood Insurance Reform Act of 2012.

Escrow of Flood Insurance Premiums and Fees – Option to Escrow

Under the proposed rule, Section 25(b) of HFIAA requires regulated lending institutions, such as federal credit unions, to offer and make available to their members the option to escrow flood insurance premiums and fees for loans that are “outstanding” as of January 1, 2016. Navy Federal understands these loans to be existing loans in our servicing portfolio made, increased, extended, or renewed prior to January 1, 2016 – the effective date of implementation of the escrow requirements.

Navy Federal currently has a policy to waive escrow for taxes, hazard insurance premiums and fees, and other items if the member meets certain criteria. If under the proposed rule, Navy Federal would be required to offer and make available the option to escrow flood insurance premiums and fees to this population of our members, we are concerned that these members may be displeased or, at the very least, confused with receiving such notification as detailed in the proposed Appendix B to Part 760 – Sample Clause for Option to Escrow for Outstanding Loans. Navy Federal requests the NCUA provide clarification for members with outstanding loans that are currently not escrowing for taxes and insurance.

For members who do not meet our criteria to waive escrow, and therefore are currently escrowing for taxes, hazard and flood insurance premiums and fees, a required notification offering to make available the option to escrow will confuse our members and pose a member service challenge. Consequently, Navy Federal requests further guidance from the NCUA on the proposed “option to escrow” requirement for members with escrowed loans.

New Exemption

Section 13 of HFIAA, which amends section 102(c) of the Flood Disaster Protection Act (FDPA - 42 U.S.C. 4012a(c)), includes a new exemption to the mandatory flood insurance purchase requirement. The statute provides that flood insurance is not required, in the case of any residential property, for any structure that is a part of such property but is detached from the primary residential structure and does not serve as a residence. This new exemption is incorporated into the proposed rule.

Navy Federal requests clarification regarding this exemption’s use of the terms “detached structure,” “residence” and “residential property.” We believe that there may be some ambiguity as to when such detached structures serve as a residence, but may not meet certain State and local definitions of residence, or when a detached structure that was not initially a residence becomes a residence. Also, because the statute applies the exemption to residential property, the NCUA may want to clarify the term “residential property” because the term not only refers to the type of property securing the loan, but it also refers to the purpose of the loan. The clarification could state that the exemption is only available if the detached structure does not secure a loan that is an extension of credit for a primarily business, commercial, or agricultural purpose.

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“Nonperforming Loan” Definition

The proposed rule includes several exceptions to the escrow requirement. One such exception is “nonperforming loans” that are 90 or more days past due. The proposed definition of 90 or more days past due is consistent with many lenders’ current practices for servicing nonperforming loans and will ensure that all servicers will use the same standard in determining when a loan is nonperforming for purposes of this exception to the escrow requirement. Navy Federal however requests clarification as to whether loans in bankruptcy are included in this exception.

Navy Federal welcomes NCUA’s efforts to address the concerns of members and credit unions with loans in areas having special flood hazards and will continue to work with NCUA to craft reasoned approaches to these important issues. Should you or a member of your staff have additional questions about our comments, please contact Carmelo Bramante, Senior Analyst & Compliance Officer, at (703) 206-3263.

Sincerely,

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

Cutler Dawson
President/CEO

CD/cb