

December 19, 2014

SUBMITTED ELECTRONICALLY AT REGULATIONS.GOV

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

Re: RIN-3133-AE40

Dear Mr. Poliquin:

I am writing on behalf of SchoolsFirst Federal Credit Union (SchoolsFirst FCU), which serves school employees in Southern California. We have more than 625,000 Members and over \$11 billion in assets. SchoolsFirst FCU appreciates the opportunity to comment on your proposed rule regarding loans in areas having special flood hazards which would implement certain provisions of the Homeowner Flood Insurance Affordability Act of 2014. We are not generally opposed to the proposed rule; however, we do have some concerns with the mandatory escrow requirements found in proposed Part 760.5 to bring to your attention.

The proposed rule would require an escrow account be established for flood insurance premiums, but includes an exemption for junior lien loans secured by the same property and for which the borrower has a compliant flood insurance policy in place.<sup>1</sup> We note several challenges with this proposal. With respect to the provision which would require credit unions to offer and make available the option to escrow flood insurance premiums for existing loans outstanding as of January 1, 2016<sup>2</sup>, credit unions should not be required to offer escrow accounts for junior lien loans for several reasons. First and foremost, the primary lienholder is responsible to ensure adequate flood coverage is in place and an escrow account is established for the flood insurance premiums on a newly originated loan. For *existing* first lien loans, the primary lienholder must offer and establish an escrow account for the flood insurance premiums upon the borrower's request. It would therefore be cumbersome, duplicative, and confusing to require a credit union in a subordinate lien position to also offer the escrow account.

Additionally, the regulation as proposed does not include guidance as to what would constitute acceptable evidence of flood insurance coverage or an acceptable timeframe for the borrower to provide the evidence. With respect to the timeframes for requesting and obtaining evidence of coverage, it may be useful to include a cross-reference to Regulation X's force-placed insurance requirements<sup>3</sup> promulgated by the Consumer Financial Protection Bureau's 2013 Mortgage Servicing Final Rules.

Another difficulty with requiring escrow accounts on junior lien loans (in the unlikely event there is no flood coverage on the first lien) is that most credit unions service their equity loans on core banking systems. Such systems are not typically set up "off-the-shelf" to accommodate escrow accounts and the purchase of the software upgrade required to implement the functionality would be time- and cost-

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<sup>1</sup> See § 760.5(a)(2)(ii)

<sup>2</sup> See § 760.5(d)(1)

<sup>3</sup> See § 1024.37

intensive. Additionally, there would be staffing costs for training and monitoring. Alternatively, the loans could be serviced by a sub-servicer, but this option would also result in additional cost to the credit union.

For all the foregoing reasons, we ask you reconsider the exemption and re-draft the language to exempt junior lien loans altogether from the escrow account requirements.

We thank you for the opportunity to provide comments, and trust you find them informative in your final rule-making.

Sincerely,



John Barton  
Senior Vice President, Lending  
SchoolsFirst Federal Credit Union

Cc: Credit Union National Association (CUNA)  
California & Nevada Credit Union Leagues (CCUL)