



December 29, 2014

National Credit Union Administration
Attn: Gerard Poliquin
1775 Duke Street
Alexandria, VA 22314

RE: Response to Proposed Rulemaking Regarding Loans in Areas Having Special Flood Hazards: RIN 3133-AE40

Dear Mr. Poliquin:

After reviewing the Proposed Flood Insurance Rule issued on October 30, 2014, SECU would like to provide comment on the agencies' proposals, as well as note areas of concern.

Definitions

We appreciate the agencies' efforts to clarify the definitions used in the proposed rule and avoid ambiguity. The agencies specifically requested comment on how to define several terms in the rule. We agree with the agencies' proposed definition of a "nonperforming loan" as any loan that is 90 or more days past due. We would, however, like to offer comment on the proposed definitions of "residence" and "residential property" in relation to the exemptions granted by §760.4. The agencies have requested comment on whether to base the definition of "residential property" on the loan collateral or purpose. We propose that "residential property" be defined based on the loan collateral. Basing the exemption on the type of collateral would be more consistent with existing lending regulations and better satisfy the intent of the rule. The loan's purpose should not determine whether or not a detached structure is eligible for the exemption. In addition, we believe defining the term in this manner would create less confusion for both consumers and financial institutions. We also recommend that the agencies use the HMDA definition of "dwelling" (and the exceptions to that definition) as a guideline for their definition of "residence."

Additional concerns

We have concerns about the exceptions to the escrow requirement under §760.5(a)(2). While we concur with the existing exceptions, we are concerned that there is no exception for reverse mortgage loans. While exceptions have been granted for other loan types such as home equity lines of credit and business loans, the escrow requirements of §760 appear to apply to reverse

mortgages. As these are not conventional loans, many servicers currently service these loans on separate systems and do not have the ability to escrow for these accounts. Requiring escrow services for reverse mortgage loans will impose a heavy burden on lenders offering these loans in flood hazard zones. In addition, many consumers may wish to utilize the features of a reverse mortgage to pay off their existing indebtedness to reduce their debt payments and are not seeking an additional income stream. As such, there may be insufficient equity to provide for monthly disbursements to accommodate the collection of funds for the required flood insurance. The consumers would have to pay the servicer each month to establish the escrow account. This is not the intent of the consumer or the servicer when establishing a reverse mortgage. As a result, the rule as currently written could lead to a tightening of the availability of this type of credit, as many lenders may not be able to meet the requirements by the January 1, 2016 deadline. We believe that amending the rule to provide an exception for this loan type would be in spirit with the existing exceptions under §760.5(a)(2), and would assist lenders in continuing to provide reverse mortgages to borrowers in these areas.

An additional concern is the requirement for creditors to make available the option to escrow flood insurance to borrowers for loans secured by residential improved real estate or a mobile home that is outstanding on January 1, 2016. There are significant costs associated with establishing and maintaining escrow accounts. Since the escrow requirement was not in place at the time these loans were originated, implementing this requirement retroactively places undue burden on creditors whose servicing systems may not be capable of handling escrow accounts. Forcing creditors to offer escrow accounts to these borrowers will result in these lenders being forced out of the mortgage business and/or selling the loans to large servicers, which would ultimately limit consumers' options.

We hope that our comments will be taken into consideration. We will gladly provide any additional information that will assist your efforts to evaluate the impact of this proposed rule and the consideration of appropriate changes to the rule.

Thank you for your time,



Spencer Scarboro
SVP – Lending Integrity
State Employees' Credit Union