



MISSOURI CREDIT UNION ASSOCIATION

December 29, 2014

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

RE: Don Cohenour - Comments on Loans in Areas Having Special Flood Hazards
RIN 3133-AE40

Dear Mr. Poliquin:

On behalf of the 1.3 million credit union members, the Missouri Credit Union Association (MCUA) would like to take this opportunity to express our views on the proposed notice of joint rulemaking on Loans in Areas Having Special Flood Hazards. The proposed notice of joint rulemaking issued by the Office of the Comptroller of the Currency, Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, Farm Credit Administration, and the National Credit Union Administration (NCUA) (collectively, the Agencies) implements requirements in the Homeowner Flood Insurance Affordability Act of 2014 (HFIAA), which amends some of the changes made by the Biggert-Waters Flood Insurance Reform Act of 2012 to the Flood Disaster Protection Act (FDPA). Among these changes are amendments relating to the escrow requirement. HFIAA also includes a new exclusion from the mandatory flood insurance purchase requirement for certain detached structures. This proposal does not implement changes contained in the October 2013 proposed rule.

While we generally agree with most of the requirements in the proposal and appreciate the Agencies addressing some issues raised in our 2013 comment letter, we request that the Agencies be mindful of placing additional regulatory requirements on credit unions. Some credit unions remain concerned that they do not have the capability to escrow flood insurance premiums on loans processed by their core processing systems. For these credit unions, upgrades to facilitate escrowing flood insurance premiums will be costly and time consuming, with these costs eventually borne by members.

We request that the Agencies add provisions to the final rule that will permit compliance dates to be extended or provide a limited good cause waiver from the requirements to facilitate credit unions' efforts to upgrade computer systems and implement other procedures necessary to comply with the final rule.

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Escrow Requirement

The proposed rule requires credit unions, or servicers acting on their behalf, to escrow all premiums and fees for flood insurance required for most loans secured by residential improved real estate or a mobile home unless a statutory exception applies. MCUA supports the exceptions found in § 760.5(a)(2) of this requirement. To facilitate escrow requirements, lien holders, insurance companies, and homeowners should be required to indicate escrow status. This would help credit unions track the escrow status of these loans. These requirements would help lienholders track flood insurance status, which will make compliance with the provisions in this proposal less complicated for lenders.

We recommend several additional requirements to help financial institutions meet escrow requirements:

- The insurance declarations page should detail escrow status;
- Changes in escrow status by lienholders should be reported to insurance companies; and
- Insurance companies should be required to notify all lienholders and homeowners when informed of changes in escrow status.

Exceptions from Escrow Requirements

We urge the Agencies to review the escrow requirements contained in Regulation Z, under section 1026.35 to ensure that there is as much consistency as possible between the escrow requirement under this section and those that NCUA is contemplating. We fear that multiple escrow schemes will be created where credit unions will be required to deal with different escrow requirements for flood insurance, taxes and other related items.

Detached Structure Exemption

The detached structure exemption excludes relatively low-value structures detached structures such as sheds and garages, from mandatory flood insurance coverage. We support this exemption because it adds flexibility for borrowers and lenders not to insure a low value structure. We also support the flexibility given to lenders to require insurance on high value detached structure that would otherwise fit into this exemption. NCUA should issue guidance on the detached structure exemption to ensure that credit union and consumer expectations as to the application of this exemption are met. Specifically, the exemption is for detached structures that are not considered a “residence.” Determining when a detached structure is a residence could be problematic for a detached structure that contains facilities and conveniences usually associated with a residence. A definition or guidance detailing what is considered a residence would be helpful.

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Timing

Credit unions need more time to comply with the provisions in the proposed regulation. The process for determining loans requiring escrow could be time consuming for the reasons highlighted in above. This coupled with the fact that internal processes and programing may need to be modified, leaves little time for credit unions to properly comply with the escrow provisions in the rule. These loans must be reviewed to determine lien position and whether the primary lender is subject to escrow requirements. These loans will require ongoing monitoring to determine if a first mortgage that is subject to escrow requirements is paid off.

We request that the Agencies look for ways to add flexibility to the compliance dates. We believe that credit unions need at least two years to comply with these requirements due to the complicated upgrades to computer systems and process for compliance that will be required.

As always, we appreciate the opportunity to respond to proposed notice of rulemaking. We will be happy to respond to any questions regarding these comments.

Sincerely,



Don Cohenour
President

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